Initiating Coverage Report
8 May 2019

السعودي الفرنسي كابيتال
Saudi Fransi Capital

# Saudi Arabian Petrochemicals

## Saudi Basic Industries Corp (SABIC)
## Yanbu National Petrochemical Co (YANSAB)
## Saudi Kayan Petrochemical Co (KAYAN)

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## Investment Thesis

According to the International Energy Agency, demand for petrochemicals has nearly doubled since 2000 and the sector currently consumes around 14 percent of daily global oil use as well as 8 percent of gas. Moreover, demand for petrochemicals is expected to grow by 30 percent by 2030 and 60 percent by 2050, which would require incremental demand of 7mn barrels of oil per day. New capacity additions are also coming underway, but the increase in supply is expected to be less than demand growth over the long-run, exerting an upward pressure on petchem prices. Industries that drive demand for petrochemical products include automotive, textile, construction, pharamaceutical and consumer goods among others. With that said, the ongoing trade tensions between China and the US will most certainly affect global demand for various industries. Whether tensions escalate or wind down will be a decisive factor for the strength of global trade and potentially affect petrochemical demand.

The petrochemical sector in Saudi Arabia is indirectly incorporated in the Vision 2030 since it will be one of the main sectors that will aid in boosting non-oil exports. This positions the petrochemical sector as a key pillar for the country's economy, resulting in significant investments by the government in the sector, along with encouragement of investor participation and support for Saudi-foreign joint ventures for new petrochemical projects.

Saudi Basic Industries Corp. (SABIC) is involved in the production of petrochemicals, agri-nutrients, specialties and metals. Nevertheless, petrochemicals make up almost 90 percent of the company's sales. For SABIC, vital changes are currently underway. First and foremost, Aramco's acquisition of PIF's 70 percent stake in the company is expected to create some synergies as well as provide for SABIC a more stable and relentless flow of feedstock needed for its production. Second, SABIC is establishing a company called SABIC Agri-nutrient Investments to consolidate all its equity shares and assets currently held in several companies that are specialized in the production of agri-nutrient products. The newly formed company will then be acquired by SAFCO, a subsidiary for SABIC. This move is expected to aid SABIC's ambition to grow its agri-nutrients business into a global leading position. Third, SABIC has recently announced its plan to merge two of its wholly owned subsidiaries, Sadaf and Petrokemya, in order to create a more efficient entity that would enhance the optimization of assets and increase value due to synergies. These moves come as part of SABIC's transformation program that was announced some years ago, and is expected to enhance agility across all its operations.

We initiate coverage on SABIC with Hold rating and SAR 130, 12-month target price. Our DCF valuation assumes 12-88 debt-equity mix, resulting in 9.2% WACC. It is important to note that the company's stock price is expected to temporarily diverge away from its intrinsic value due to KSA's recent inclusion in the FTSE Emerging Market Index and the upcoming inclusion in the MSCI EM Index, and SABIC will be a main beneficiary from the anticipated inflow.

SABIC's production is mainly achieved by affiliates where it holds significant stakes. Two of SABIC's main affiliates are Yanbu National Petrochemical Co. (Yansab), of which SABIC owns 51%, and Saudi Kayan Petrochemical Co. (Kayan), of which SABIC owns 35%. Yansab operates SABIC's largest petrochemical complex, while Kayan is the first producer of polycarbonate in the Middle East. Together, the two companies are responsible for the production of numerous end products that are vital for SABIC's sales and perforamance.

We initiate coverage on Yanbu National Petrochemical Co. (Yansab) with a Hold rating and SAR 73, 12-month target price and for Saudi Kayan Petrochemical Co. (Kayan) with a Hold rating and SAR 14, 12-month target price.

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# Investment Risks

SABIC is the largest listed company on the Saudi exchange by market capitalization with decades-long operational track record. The following section highlights potential risks that could impact our financial projections and consequent share performance. More than 85 percent of the company's revenues are derived from international markets, which exposes it to global and industry trends. Moreover, since feedstock makes up considerable portion of the company's cost structure, volatility in prices could have immense effect on earnings. Investors are advised to prudently consider each risk before making an investment decision.

## *Crude price fluctuation*

Since crude oil, along with its derivatives, constitute feedstock for petrochemicals, high volatility of crude prices affect the investment, production, and financial decisions of petrochemical companies to an extent. Correspondingly, input costs pass through to end product prices. The latest drop in oil price and potential continued weakness suggests product price pressure ahead.

## *Additional subsidy cuts*

Petrochemical companies in Saudi Arabia commanded significant competitive advantage over international producers, since feedstock was heavily subsidized. However, at the end of 2015, after a steep drop in oil price, the government of Saudi Arabia announced that the prices of basic feedstock would be increased in order to reinforce its fiscal goals of cutting energy subsidies and easing the country's budget deficit. Methane gas price was increased from USD 0.75/MMBtu to USD 1.25/MMBtu and the price of ethane which is the main raw material used by petrochemical companies was lifted even further, from USD 0.75/MMBtu to USD 1.75/MMBtu. These changes eroded cost competitiveness of Saudi companies. While we expect low probability of a feedstock price hike in 2019, we believe that price revision is inevitable as the government narrows revenue leakage to subsidies. The impact on domestic producers' costs and future investment decisions will be material.

## *Aramco acquisition*

Saudi Aramco is moving ahead with acquiring Public Investment Fund's (PIF) 70 percent stake in SABIC which in our view will unlikely result in a substantial shift in operational strategy. However, possibility exists for SABIC to embark on new projects which could entail significant capex program and associated funding requirement. Leverage levels may rise, elevating rate risk. Conversely, SABIC could potentially benefit from feedstock availability as a sister company of Aramco.

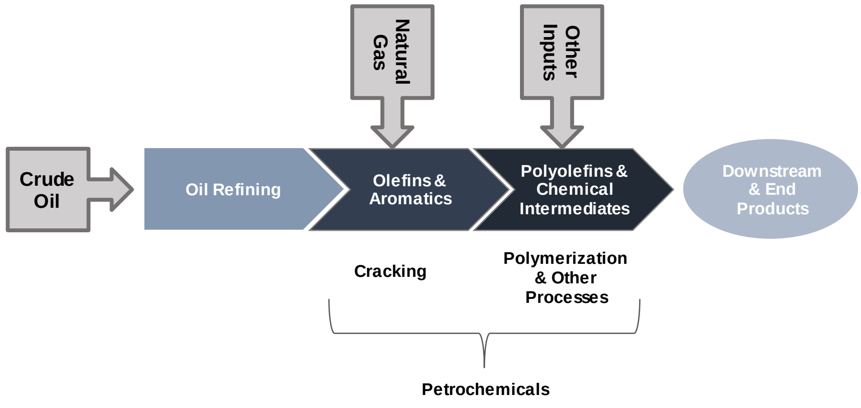
## *Slower global growth*

Following a near decade long global growth phase, signs of slowdown are emerging with IMF revising growth forecast lower. Demand for commodities is expected to cool down and could impact product price outlook. Second, since 2000, investment costs with respect to capex per ton of chemicals produced has gradually increased, due to locations, tighter construction market conditions and declining efficiencies. SABIC's future expansion plans may be subject to demand outlook and capital deployment decisions.

# Industry Overview

As a diversified industrial giant, SABIC operates across three main verticals: petrochemicals, agri-nutrients and steel. Since 83% of sales volume is derived from petrochemicals, we focus on this segment in this section (for agri-nutrients, please see our coverage of SAFCO). The global petrochemical industry is capital intensive, competitive and reliant on technological innovation. Petrochemicals consume some 10% of the oil and gas industry's output. However in monetary terms, the percentage is much higher given the value added. By 2030, petchems are expected to constitute one-third of oil demand growth, rising to 50% by 2050 (equivalent to 7 mbpd of incremental demand).

**FIG 1: HIGH LEVEL PROCESS**

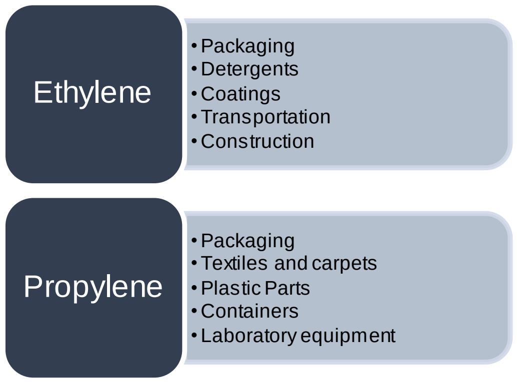



*Source: Company Reports*

## Continuous Innovation to Support Growth

The industry initially evolved out of technological innovation in the developed industrialized economies (U.S., Western Europe and Japan). However, over the past few decades, production in countries with competitively priced feedstocks has increased. Global petchem industry is expected to grow at +6.7% CAGR over the next five years to top USD 1 tn, driven by rising income levels and propelling demand from automotive, textile, construction, pharmaceutical and consumer goods industries. Ethylene comprises c. 40% of the market with end-uses in packaging, detergents, coatings, transportation and construction.

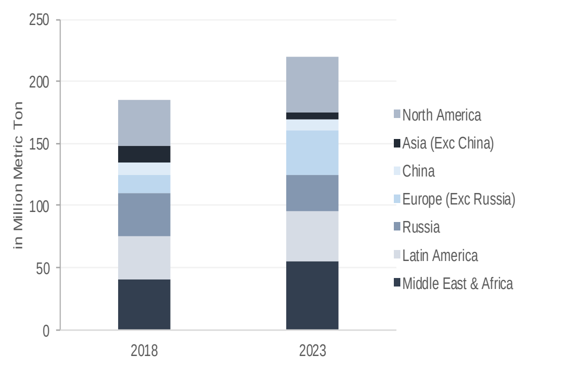
**FIG 2: ETHYLENE/PROPYLENE END USES**




*Source: MDPI, Argaam*

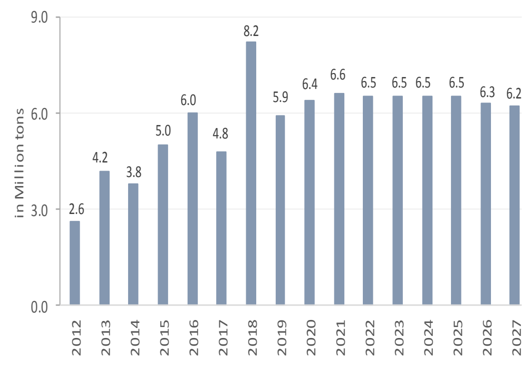
Global ethylene capacity is projected to rise to 220mt by 2023 from 185mt in 2018. Just over 40% of this addition will come from the MENA region. During the same period, demand growth is expected to outpace capacity addition, according to IHS Markit.

FIG 3: GLOBAL ETHYLENE CAPACITY SET TO HIT 220MN METRIC TONS BY 2023




Source: EMIS Database - Petrochemical Report by FitchSolutions

FIG 4: GLOBAL ETHYLENE ANNUAL DEMAND GROWTH (MN TONS)

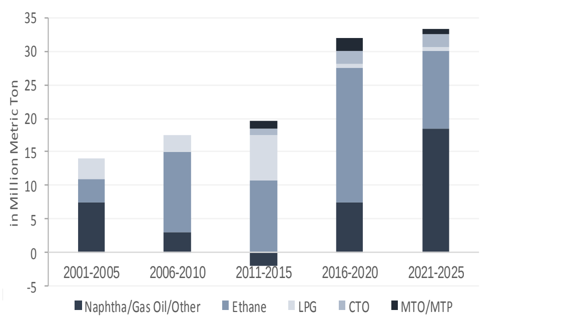



Source: IHS Markit

## *Feedstock*

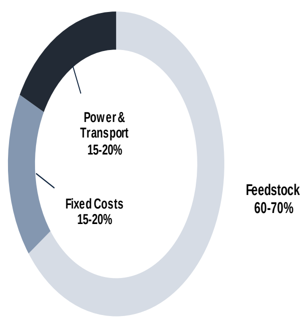
Feedstock availability has been a critical factor behind capacity addition. Petrochemicals are derived from natural gas (ethane), condensates, naphtha and biological products. Ethane is derived from gas and natural gas liquids (NGLs) while naphtha is more prevalent in crude oil. Since each feedstock has a unique composition of hydrocarbons, the yield varies. For example, naphtha yields 30% ethylene and 70% byproducts versus 80% ethylene and 20% byproducts from natural gas. Roughly half of global capacity relies on naphtha with China as the largest producer (29%) and consumer (28%). U.S. and Middle East producers favor natural gas as primary feedstock given abundant availability. Feedstock is the largest component of production costs and can provide significant competitive advantage.

FIG 5: GLOBAL ETHYLENE GROWTH BY FEEDSTOCK (MILLION METRIC TONS)




Source: IHS Markit

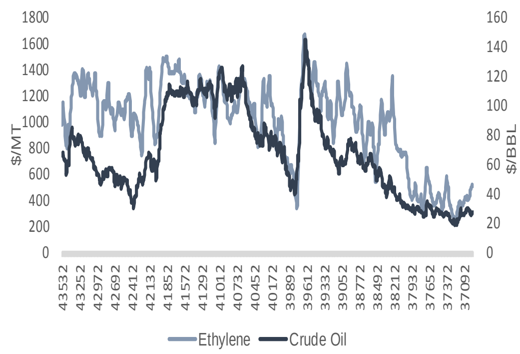
FIG 6: PETROCHEMICAL COMPANIES COST OF PRODUCTION DISTRIBUTION




Source: Krungsri

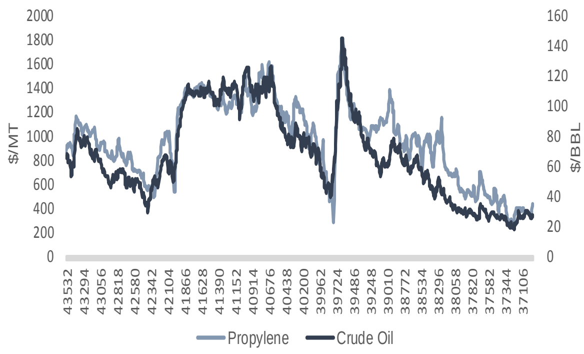
Movement in feedstock prices is one factor impacting product prices. Ethane and methane are an exception, since their prices are currently fixed by the Saudi government. Upstream product prices (ethylene, propylene) show 70-85% correlation to feedstock prices. Producers optimize margins by capturing the spread between product-feedstock price. Another factor affecting petrochemical products is oil price. The price of oil and petrochemical products is highly correlated, to the extent that a study by ICIS showed a 96% correlation between oil and ethylene prices. Nevertheless, it is important to note that supply and demand specifics of each product also play an important factor in determining the prices.

FIG 7: ETHYLENE ($/MT) VS CRUDE OIL ($/BBL)




*Source: Bloomberg*

FIG 8: PROPYLENE ($/MT) VS CRUDE OIL ($/BBL)




*Source: Bloomberg*

## *Production Process*

The industry initially evolved out of oil and gas processing by adding value to waste byproduct, resulting in adhesives, explosives, additives, pharmaceuticals, solvents, synthetic rubber and plastics. Large and complex manufacturing chains are interconnected forming a petrochemical complex. Plant construction takes three to seven years on average, requiring careful assessment of future market conditions (supply-demand balance). Historically, the industry cycle (peak-to-trough) spans six to nine years. However with continuous innovation and non-uniform growth, cycle dynamics may change in the future. Petrochemical plants are usually integrated with the oil and gas industry, supplying feedstock. Production can be broken down into four primary stages:

i. **Feedstock preparation:** This involves receiving feedstocks, which largely come from the oil and gas industry.

ii. **Upstream petrochemical industry:** The upstream producers convert feedstock into two product groups according to molecular structure: olefins and aromatics. Olefins include methane, ethylene, propylene, and other chemicals formed from 4 carbon atoms (mixed C4). Aromatics include benzene, toluene and xylene, that are used for further processing.

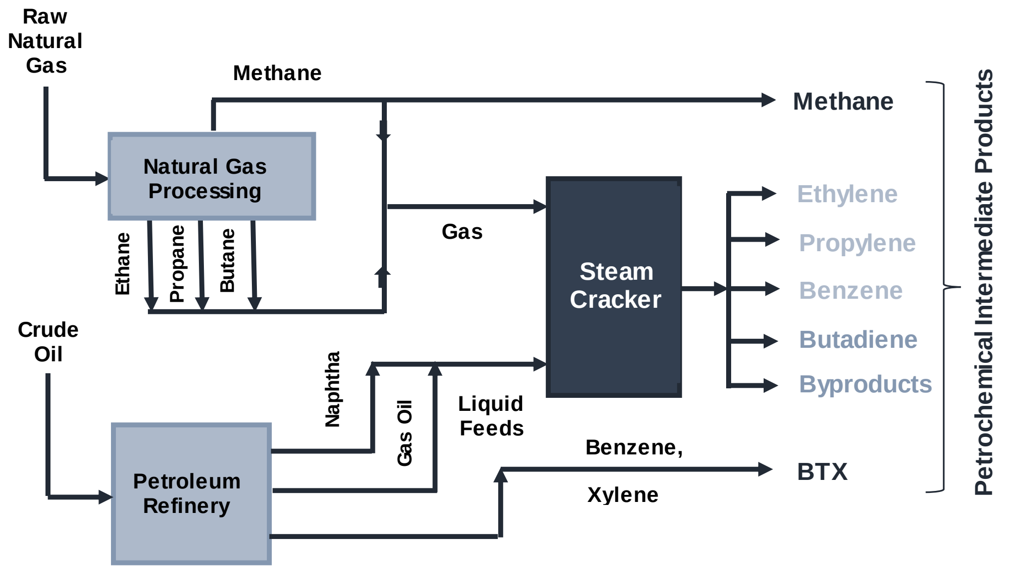
iii. **Intermediate petrochemical industry:** The intermediate producers convert upstream products into intermediates (for example styrene and vinyl chloride) to be consumed by downstream uses.

iv. **Downstream petrochemical industry:** Upstream and intermediate products are converted for use by other industries. Downstream products can be divided into 4 main groups:

- Plastic resins - used in the production of packaging products, building materials, consumer goods, as well as automotive manufacturing. The main plastic resins include polyethylene, polypropylene, poly vinyl chloride (PVC) and polystyrene.
- Synthetic fibers - polyester and nylon fiber are used by numerous industries, including packaging and textiles.
- Synthetic rubber/elastomers - styrene-butadiene and styrene-butadiene rubber (SBR) are used in the manufacturing process of consumer goods, tires and automotive parts.
- Synthetic coating and adhesive materials - polycarbonate and polyvinyl acetate are used in the construction industry as well as a number of other industries.

Ethylene is produced through a process called steam cracking, whereby hydrocarbons are thermally broken down (cracked) into smaller molecules.

FIG 9: FEEDSTOCK PROCESS




*Source: Argaam*

## *Demand Drivers*

Plastic consumption between developing and developed countries varies substantially. Data indicates that developing countries consume around 4 kilograms per capita of key plastic resins, but with higher growth potential. On the other hand, developed countries consume between 55 and 80 kilograms per capita of the same plastic products, but hold lower potential for growth. Packaging constitutes some 36% of global demand for plastic, including consumer and industrial end uses. Rising income levels and urbanization in developing economies will propel demand for consumer goods such as FMCG and synthetic textiles. Second, global economic growth, cut to 3.5% for 2019 by IMF, will be a strong driver for construction and transportation end uses. Slowing growth in China (below 6.5%) is raising demand concern however we believe other emerging economies could help mitigate impact. Third, the search for lighter, stronger and cheaper alternative will maintain focus on innovation. Rising environmental concerns may fuel push for alternatives (biodegradable, recyclable).

BMI expects KSA petrochemical sector to grow by an average +5.6% over the next four years as the country accelerates the development of large scale downstream projects. Installed capacity is expected to nearly triple from 12 mt in 2016 to 34 mt in 2030.

## Petrochemical Industy in KSA

Saudi and regional petrochemical companies enjoy feedstock cost advantage over their European and North American peers thanks for large discounts. Two events in the last three years have eroded cost advantage: 1) weaker oil and gas prices and 2) gradual removal of subsidies. Ramp-up in shale production and weak global demand have pressured average oil prices lower since 2015. Consequently, feedstock costs declined and narrowed Saudi producers’ advantage. Further, international producers have been optimizing costs over a number of years while domestic companies enjoyed low energy and labor costs, in addition to negligible corporate taxes. Second, Saudi Arabia launched National Transformation Program in 2016 with the aim of diversifying revenues and cutting subsidies. This resulted in feedstock price hike in 2016 with potential for further increases in the upcoming years until reaching benchmark prices.

**TABLE 1: KSA PETROCHEMICALS CAPACITIES: 2015-2023 (METRIC TONS)**

| | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|
| Acrylonitrile butadiene styrene | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Ammonia | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Benzene | 1.3 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Ethylbenzene | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Ethylene dichloride | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Ethylene glycol | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Ethylene oxide | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Ethylene | 16.7 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 |
| High density polyethylene | 5.1 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Low density polyethylene | 1.3 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Linear low density polyethylene | 4.8 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| PE | 11.1 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 | 12.2 |
| Methanol | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 |
| Polyethylene terephthalate | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Polypropylene | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Propylene | 6.6 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| PS | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| PVC | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Styrene | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Urea | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |
| Vinyl acetate | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Vinyl chloride | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Vinyl chloride | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| **Total Capacity** | **87.9** | **92.0** | **92.2** | **92.2** | **92.2** | **92.2** | **92.2** | **92.2** | **92.2** |

*Source: EMIS Database -Saudi Arabia Petrochemicals Report - 2Q19*

Historically, the domestic industry developed through joint ventures with international producers. More recently, Saudi Aramco and Dow Chemical partnered to form the USD 20bn Sadara Chemical, which is the world's largest integrated complex and boasts fixed feed cracker. Sadara will increase specialization through production of polyols and isocyanates. In addition, Aramco and Total signed an MoU to develop the USD 9bn, 2.7 mt Amiral complex in Jubail, with production slated for 2024. Further, domestic producers are increasingly targeting expansion outside Saudi Arabia to target key markets (for example Advanced Petrochemical, SABIC). Petrochemicals contribute SAR 45bn to the Saudi economy and comprise a major portion of exports. Vision for the sector includes further move downstream into specialty and high performance plastics.

**TABLE 2: KSA OLEFINS AND BASIC POLYMERS CAPACITIES (MILLION METRIC TONS)**

| | Ethylene | ropylene | HDPE | LDPE | LLDPE | Total PE | PP |
|---|---|---|---|---|---|---|---|
| Ibn Zahr | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Arabian Petrochemicals | 2.3 | 0.3 | 0.4 | 0.0 | 0.4 | 1.0 | 0.0 |
| Kemya | 0.8 | 0.0 | 0.3 | 0.2 | 0.9 | 1.3 | 0.0 |
| Yanpet | 1.6 | 0.0 | 0.4 | 0.0 | 0.4 | 1.3 | 0.3 |
| Jubail United Petrochemical Co | 1.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 | 0.0 |
| Saudi Polyolefins | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 |
| Advanced Petrochemical Co | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| NatPet | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| SEPC | 1.0 | 0.3 | 0.4 | 0.4 | 0.0 | 0.8 | 0.0 |
| Yansab | 1.3 | 0.4 | 0.4 | 0.0 | 0.8 | 0.8 | 0.4 |
| Petro Rabigh | 1.6 | 0.9 | 0.3 | 0.2 | 0.6 | 1.1 | 0.7 |
| Sharq | 2.9 | 0.0 | 0.4 | 0.0 | 1.2 | 1.7 | 0.0 |
| Al-Waha | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| Saudi Kayan | 1.5 | 0.6 | 0.4 | 0.3 | 0.0 | 0.7 | 0.4 |
| Saudi Polymers | 1.2 | 0.2 | 1.1 | 0.0 | 0.0 | 1.1 | 0.4 |
| National Chevron Phillips | 1.2 | 0.0 | 0.6 | 0.0 | 0.6 | 1.1 | 0.4 |
| Sipchem | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 |
| Satorp | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sadara | 1.5 | 0.4 | 0.4 | 0.4 | 0.4 | 1.1 | 0.0 |
| **Total** | **17.8** | **6.5** | **5.5** | **1.6** | **5.1** | **12.6** | **5.7** |

*Source: Company Reports*

## *Crude-to-Chemicals (CTC)*

IHS Markit sees crude-to-chemicals as the next evolution of the industry. Perhaps reflecting this view supports the rationale for greater cooperation between Aramco and SABIC. The two companies announced a joint venture to develop CTC complex in Yanbu, targeted to process 400 kbpd of oil (or 9 mt of chemicals per annum) starting 2025. In 2018, Aramco announced intention to acquire PIF's (Public Investment Fund) 70% stake in SABIC. CTC plants are expected to have 10x processing capacity versus conventional plants and twice as much yield per barrel of oil. For example, conventional plants cracking naphtha yield 17% to 20% (integrated complexes) while CTC could reach up to 40% yield per barrel.

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# Main Beneficiary from Foreign Inflows

Saudi Basic Industries Corp. (SABIC), a joint stock company incorporated under the laws of Saudi Arabia, is a holding company for a group of companies that together constitute the Middle East's largest non-oil industrial group. SABIC's main business is the manufacture and sale of basic chemicals, intermediates, polymers, fertilizers and metals. It is one of the world's leading producers of basic chemicals, intermediates and polymers.

**Petrochemicals projected to grow +6.7% through next 4 years**

SABIC is exposed to changes in the global economic environment and specifically the main regions where it conducts business. The company's topline is affected by economic cycles that influence end-user industries such as automotive and construction, since the company's products are used as intermediates in the manufacturing processs of the products utilized by these industries. With that being said, the mentioned industries along with rising income levels are expected to drive growth for global petchem industry for the next 4 years at +6.7% per annum. Capacity of ethylene, which comprises c. 40% of the petchem market, is expected to increase from 185mt in 2018 to 220mt in 2023.

**Feestock impact well-managed**

In 2016, the government of Saudi Arabia reduced subisidy on (increased prices of) two of the main petchem feedstock; ethane and methane. SABIC was successful in limiting the impact of this move. It managed to do so by increasing efficiency and cutting costs, but the fact that the company buys more than 40% of its feedstock from outside of KSA also helped. Another round of cuts is expected to take place by 2021 and how SABIC copes with them will be a decisive factor in the company's future performance and valuation.

**Strong margins and low leverage**

Operational efficiency along with advantaged feedstock prices have resulted in SABIC having superior margins compared to its peers. In 2018, SABIC achieved 34.1% gross margin versus peer median of 20.8%, EBITDA margin of 30.7% versus peer median of 25.5% and net margin of 12.7% versus peer median of 11.2%. Moreover, the company was able to cut down its toal debt from C. SAR 80bn in 2012 to SAR 42.4bn in 2018, placing the company in antoher advantaged spot compared to its peers.

**Key beneficiary of foreign inflows**

KSA has already joined the FTSE Emerging Market Index and will also join the MSCI EM Index later this year. This will result in billions of passive fund inflows to come in to the Saudi market. SABIC is expected to be a key beneficiary from these inflows, which will exert upward pressure on the price of its shares.

**Initiate with Hold and SAR 130 target price**

We applied DCF and relative valuation blended approach to value SABIC. For DCF, we assume 12-88 debt-equity mix yielding 9.2% WACC. We arrive at a fair value of SAR 130 per share, equating to 15.5x 2019E P/E versus 12.2x for global peers. In our view, the premium is justified considering substantially higher margins SABIC commands relative to peers.

| Rating Summary | |
|---|---|
| **Recommendation** | **Hold** |
| **12-Month Target Price (SAR)** | **130** |
| **Upside / (Downside)** | **8.3%** |
| **Dividend Yield** | **4.1%** |
| **Expected Total Return** | **12.4%** |

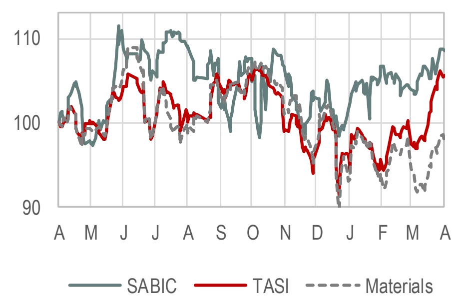
| Stock Details (SAR) | |
|---|---|
| Last Close Price | 120.00 |
| Market Capitalization (mn) | 360,000 |
| Shares Outstanding (mn) | 3,000 |
| 52-Week High / Low | 131.40 / 104.60 |
| Price Change (YTD) | 7.8% |
| 12-Mth ADTV (000s) | 3,663 |
| Reuters / Bloomberg | 2010.SE / SABIC AB |

| | 2018 | 2019E | 2020E |
|---|---|---|---|
| Revenue (mn) | 169,090 | 170,346 | 178,060 |
| EBITDA (mn) | 51,887 | 55,712 | 47,554 |
| EPS | 7.18 | 8.50 | 6.61 |
| DPS | 4.40 | 5.00 | 5.50 |

| Key Shareholders | |
|---|---|
| Public Investment Fund | 70% |
| GOSI | 5.7% |
| Free Float | 24.3% |

| Price Multiples | 2018 | 2019E | 2020E |
|---|---|---|---|
| P / E | 16.7x | 14.9x | 19.3x |
| EV / EBITDA | 7.0x | 6.8x | 8.0x |
| P / S | 2.1x | 2.2x | 2.2x |
| P / B | 2.1x | 2.0x | 2.0x |

**1-Year Share Performance (rebased)**

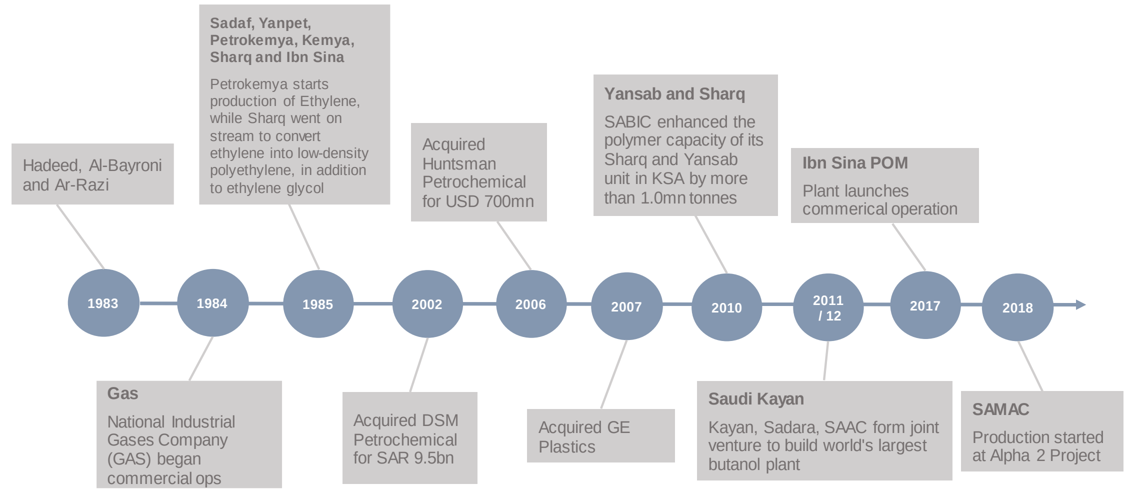



*Source: Bloomberg, Tadawul*

## Company Background

Saudi Basic Industries Corporation (SABIC) is a diversified manufacturing company that produces petrochemicals, polymers, fertilizers and metals. It is the largest company in the Middle East by market capitalization and is 70% owned by the Public Investment Fund (PIF) of Saudi Arabia. SABIC operates in more than 50 countries around the world, including 62 manufacturing plants and innovation hubs across Americas, Europe, Asia and Middle East. Headquartered in Riyadh, SABIC employees 34,000 personnel. In 1984, SABIC became publicly listed, offering 30% to investors while 70% stake was retained by the government.

**FIG 10: SABIC'S TIMELINE**




*Source: Company Reports*

### *Brief History*

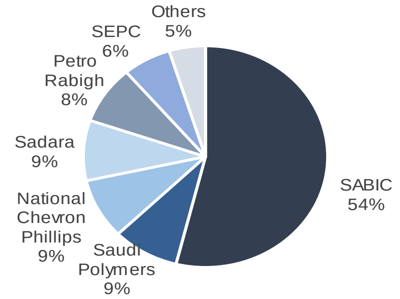
Up until the 1970s, gas (byproduct of crude production) was flared. However the steep increase in oil prices from USD 2 to 30, created potential for associated gas recovery and processing in the Kingdom. The government developed the Master Gas System to take advantage of gas not only as a source of energy but also as a means to establish domestic petrochemical industry. Jubail on east and Yanbu on west coast were selected as the industrial cities. In order to encourage businesses, including petrochemical firms, to open in these cities, the commission founded Saudi Basic Industries Corporation (SABIC) in 1976. Construction in the cities of Jubail and Yanbu started in 1977 while SABIC was also preparing to commence operations.

The company signed a number of joint venture agreements with international partners to provide technological support and know-how in exchange for low cost feedstock. By the end of the decade, SABIC already had its first manufacturing affiliates. Saudi Methanol Company, or Ar-Razi, was formed in partnership with Mitsubishi Gas Chemical Company to produce methanol, Al Jubail Fertilizer Company (SAMAD) was formed in partnership with Taiwan Fertilizer Company to produce ammonia and urea, and the Saudi Arabian Fertilizer Company (SAFCO) was formed to produce ammonia, melamine, urea and sulfuric acid. In 1980, the company formed the Saudi Iron and Steel Company (Hadeed) along with new partnerships. Saudi Petrochemical Company (SADAF) was formed in partnership with Pecten Arabian, which is a subsidiary of Shell, and Saudi Yanbu Petrochemical Company (YANPET) was formed in partnership with Exxon. These two companies developed to become diversified petrochemical producers. SADAF produced styrene, ethanol and ethylene while YANPET produced more downstream products such as polyethylene and ethylene glycol. Moreover, Al Jubail Petrochemical Company (KEMYA) was formed in partnership with Exxon Mobil to produce ethylene and polyethylene. In 1981, Eastern Petrochemical Company (Sharq) was formed as part of a consortium that was led by Mitsubishi to produce ethylene glycol, and National Methanol Company (Ibn Sina) was formed in partnership with Hoechst and

Poan Energy to produce chemical grade methanol. In 1982, most of SABIC's subsidiaries had already been formed and the construction phase was underway.

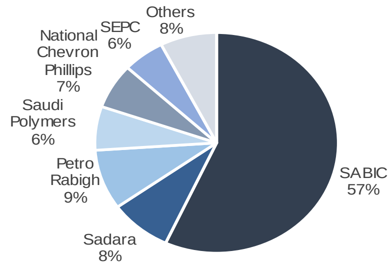
Hadeed was the first of SABIC's subsidiaries to begin production (steel products) in 1982. In 1983, Ar-Razi and SAMAD started production. Additionally, the company started exporting that year - Ar-Razi shipped 33,000 metric tons of chemical grade methanol to Japan. The number of SABIC subsidiaries continued to grow as the National Chemical Fertilizer Company (Ibn Al-Baytar) was formed to produce argon, nitrogen and oxygen plus the Saudi European Petrochemical Company (Ibn Zahr) was formed to produce methyl tertiary butyl ether (MTBE) and polypropylene. New affiliates Arabian Industrial Fibers Company (Ibn Rushd) and Ibn Hayyan Plastic Products Company were formed. In 1998, the company restructured its operations to include five main SBUs: Basic Chemicals, Intermediates, Polymers, Fertilizers and Metals. Between 1999 and 2001, the company increased its production capacity from 25 to 35 mt. In 2002, it bought the petrochemical business of Netherland's DSM for EUR 2.2bn which was the company's first operational presence outside the Middle East.

**FIG 11: SABIC'S MARKET SHARE - PE BUSINESS**



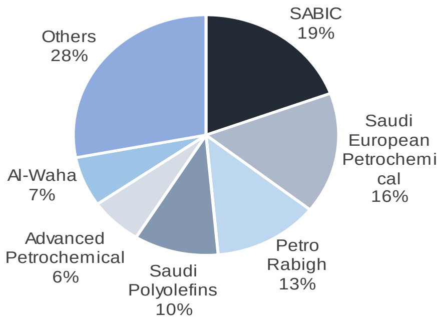

*Source: Company reports, EMIS*

**FIG 12: SABIC'S MARKET SHARE - ETHYLENE**



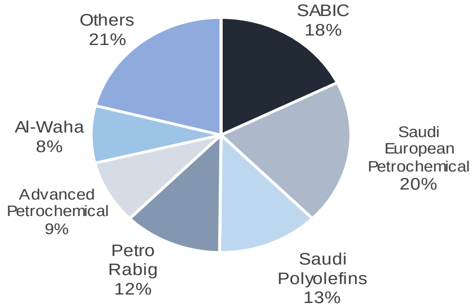

*Source: Company reports, EMIS*

**FIG 13: SABIC'S MARKET SHARE - PROPYLENE**




*Source: Company reports, EMIS*

**FIG 14: SABIC'S MARKET SHARE - POLYPROPYLEN**

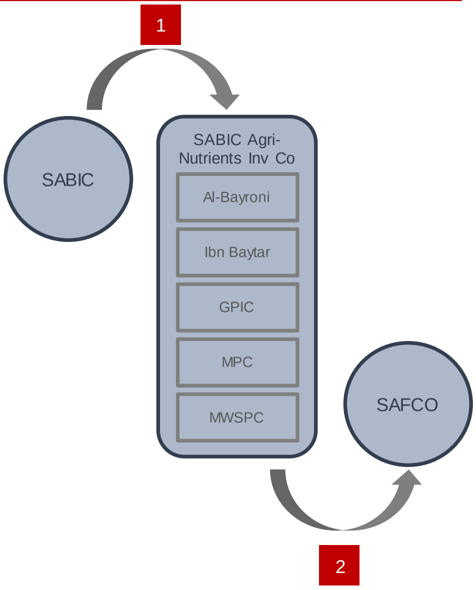



*Source: Company reports, EMIS*

## *SABIC Today*

In recent years, SABIC further streamlined SBUs into Petrochemicals, Agri-Nutrients and Metals. The company is pursuing further consolidation of businesses, for example the agri-nutrients portfolio will consist of SAFCO along with investments in Ma'aden's phosphate projects. In March, SABIC announced intention to merge SADAF and Arabian Petrochemical Company (PETROKEMYA).

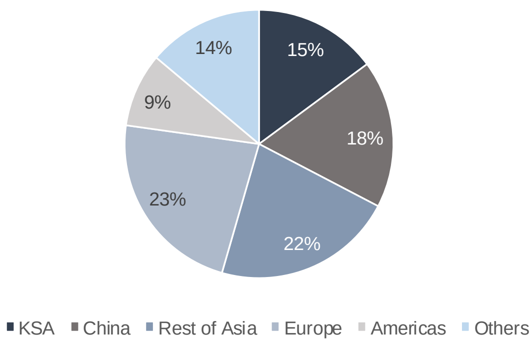
FIG 15: AGRI-NUTRIENTS OWNERSHIP TRANSFER




*Source: Company Reports*

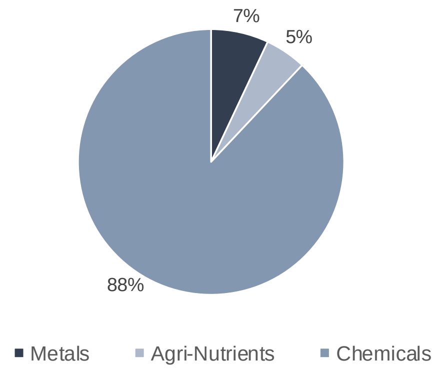
In 2018, chemicals consisted 88% of sales. In terms of geographic distribution China and Europe are the largest destinations for SABIC's products. SABIC is considering plans to build a petrochemical complex in the Chinese province of Fujian as part of wider efforts to diversify its business internationally. It has signed a preliminary agreement with the Fujian provincial government which sets out an outline for cooperation in the project. The expansion in China also serves in securing future demand for the Kingdom's crude oil supply. SABIC has already established a foothold in China through its existing joint venture with the Chinese state-owned oil company Sinopec in an ethylene plant in the Tianjin Province.

FIG 16: GEOGRAPHICAL BREAKDOWN OF SALES




*Source: Company Reports*

FIG 17: SEGMENTAL BREAKDOWN OF SALES

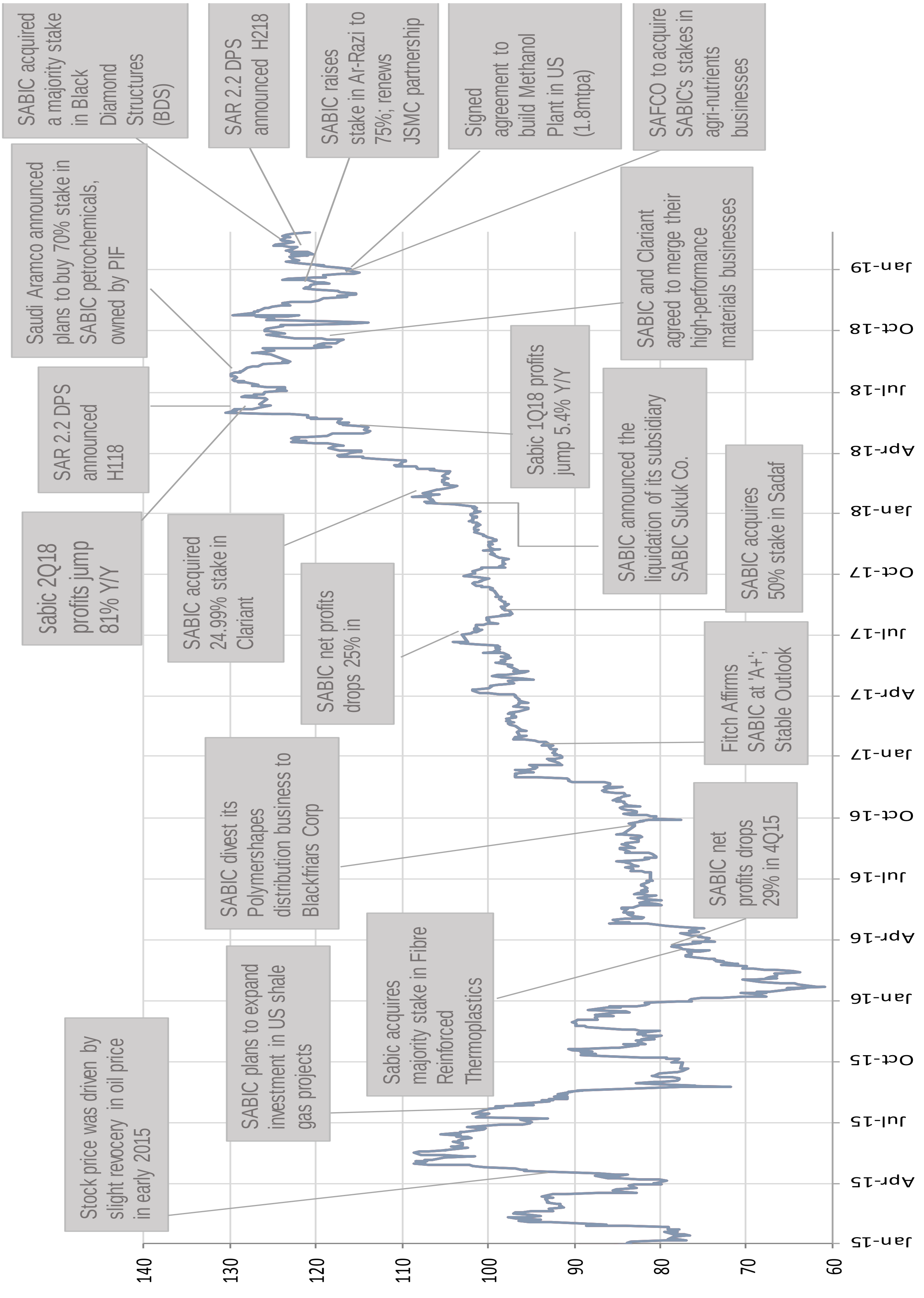



*Source: Company Reports*

## *Main Products*

SABIC's feedstock mix consists of ethane (39%), propane (30%), butane (22%), NGLs (7%) and naphtha (2%). Main products produced include: polyethylene, polypropolyne, MTBE, methanol and glycols. End uses for SABIC's products include: plastics, adhesives and additives. Polyethylene and polypropylene comprise 23% and 53% of chemicals SBU revenues, respectively.

**FIG 18: SABIC'S PRICE PERFORMANCE**




*Source: Company Reports*

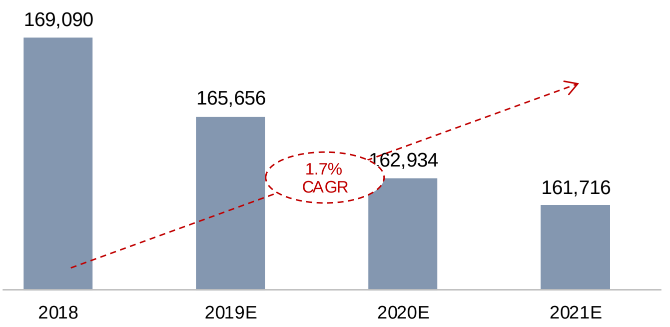
# Financial Analysis

In setting our forecasts for SABIC, we assume a steady increase in production reflecting the current and future capital expenditure projects, reaching 92.8MMT in 2025 from 74.7MMT in 2018. More importantly, sales volume is assumed to increase from 49MMT to 62MMT during those years. We also incorporate further subsidy cuts on feedstocks (ethane and methane) into our model, ultimately reflecting market prices.

## *Topline driven by petrochemicals*

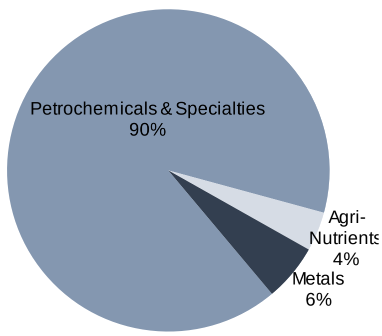
Petrochemicals make up around 88% of SABIC's sales, and hence its topline is mostly affected by these products. Going forward, increase in total production is expected to be offset by a decrease in SABIC's average selling price of petrochemical products, resulting in a modest increase in topline.

**FIG 19: REVENUE FORECAST (SAR MN)**




*Source: Company Reports*

**FIG 20: SEGMENT BREAKDOWN**




*Source: Company Reports*

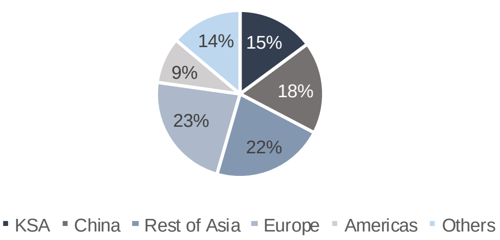
In 2018, revenues increased to SAR 169bn (+13% Y/Y), reflecting the sharp improvement in oil price during the year. The drop in oil price at the end of 2018, along with the expectations for the price to stay near USD 65/bbl during 2019 will influence product prices for the year, and thus the slight increase in topline to SAR 170bn (+0.74% Y/Y). It is also important to highlight that Europe, the U.S. and China account for 55% of SABIC's sales, and the expected decrease in GDP growth for the three countries, along with the rising trade tensions, will be a significant factor in moderating revenues through 2021.

**TABLE 3: GDP GROWTH FORECAST**

| | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| China | 6.5 | 6.2 | 6.2 | 6.0 |
| US | 2.9 | 2.5 | 1.7 | 1.6 |
| Europe | 1.9 | 1.6 | 1.5 | 1.3 |
| KSA | 2.0 | 2.1 | 2.2 | 2.2 |

*Source: World Bank*

**FIG 21: GEOGRAPHICAL BREAKDOWN OF SALE**



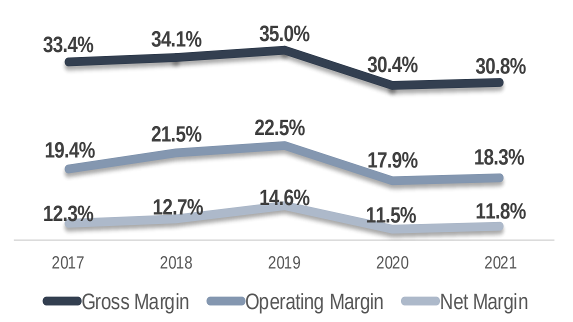

*Source: Company Reports*

## *Further subsidy cuts to affect margins*

SABIC has a significant advantage as a result of a highly competitive position reinforced by economies of scale and vertical integration. Consequently, despite government increase in feedstock prices effective beginning 2016, SABIC is still able to endure sector downturns. Neverheless, further subsidy cuts that are expected to take place in 2020 for two of the company's main feedstocks (ethane and methane) will have a significant effect on the company's gross margin, especially since a major portion of the company's cost

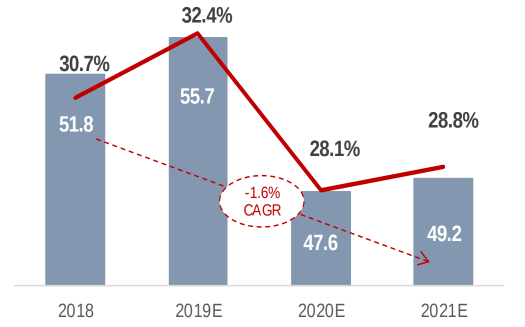
of production (60%-70%) is related to feedstock. In the presence of a highly competitive environment, it is unlikely that SABIC will be able to pass on this increase to customers and would have to absorb, ultimately negatively affecting margins.

FIG 22: MARGINS FORECAST




Source: SFC

FIG 23: EBITDA (SAR BN) AND MARGINS (%)




Source: SFC

## *Capex to increase*

SABIC undertook a large capital spending program through 2011, spending around SAR 115bn to support new production facilities such as Sharq, Yansab and Saudi Kayan. SABIC had a total production of 71MMT in 2017, accounting for an almost full utilization of its production plants in Saudi Arabia, which offset average utilization in other locations. We expect capital expenditure as a percentage of sales to increase from 7% to 8% in 2017 and 2018 to around 12% in 2019 and 2020, due to projects such as COTC with Saudi Aramco.

## *Stable debt level*

The discussed capital expenditures are expected to be mostly funded with internally generated cash, resulting in flat debt going forward. This might change if further capex is planned, or if SABIC decided to integrate some changes to its capital structure. Even though SABIC maintains a high dividend payout ratio, it has significantly reduced its gross debt since 2012. Net debt to EBITDA was at a low of 0.1x at the end of 2018, compared to 1x in 2012. The low net debt level reflects a healthy cash position of SAR 52bn compared to SAR 63bn (SAR 58bn of debt) at the end of 2017. Even with a more conservative petrochemical cycle, SABIC should be able to sustain financial flexibility going forward.

## *Disappointing 1Q19 results*

SABIC's 1Q19 results were disappointing. Total revenues of SAR 37.4bn fell -11% Y/Y and -7% Q/Q, but earnings dropped to SAR 3.4bn, a decline of -38% Y/Y, widely missing consensus. Nevertheless, these earnings represented a +5% gain Q/Q. In terms of volume, 1Q19 witnessed the highest turnover compared to the previous four quarters, but the decline in petchem prices was the major reason for this slump in net profit. Historically, SABIC achieves the highest earnings in Q2 and Q3, so there still is room to make up for the weak 1Q19 results through the end of FY19.

# Valuation

We applied a blended approach in our valuation for SABIC: discounted cash flow and relative valuation (EV/EBITDA).

## *Discounted Cash flow*

In our DCF approach, we assume 12-88 debt-equity split, which reflects the current capital structure of SABIC. Cost of equity is calculated at 9.8% and cost of debt is 4.5%, which yields a WACC of 9.2%. In calculating the terminal value, we forecast a long-term growth rate of 2.5%. The DCF approach ascribes a fair value per share of SAR 131.

**TABLE 4: DCF VALUATION**

| DCF (SAR mn) | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|
| EBIT | 37,354 | 29,119 | 29,577 | 30,452 | 28,355 | 29,069 | 33,869 |
| + Depreciation & amort | 17,158 | 17,516 | 17,799 | 17,833 | 17,529 | 17,233 | 16,945 |
| - Zakat | 3,963 | 4,100 | 4,182 | 4,304 | 3,986 | 4,117 | 4,811 |
| - Wokring capital changes | (3,907) | (1,600) | (38) | 1,159 | (60) | 669 | 3,916 |
| - Capex | 19,654 | 19,212 | 16,957 | 13,566 | 13,294 | 13,028 | 12,768 |
| **FCFF** | **34,801** | **24,922** | **26,275** | **29,257** | **28,664** | **28,488** | **29,319** |
| PV of FCFF | 147,724 | | | | | | |
| PV of terminal value | 248,505 | | | | | | |
| Enterprise value | 396,229 | | | | | | |
| Net debt | 4,421 | | | | | | |
| Equity value | 391,808 | | | | | | |
| Shares outstanding (mn) | 3,000 | | | | | | |
| Value per share (SAR) | 131 | | | | | | |

| Assumptions | |
|---|---|
| Risk free rate | 3.5% |
| LT growth rate | 2.5% |
| Beta | 0.96 |
| Equity risk premium | 6.58% |
| Cost of equity | 9.8% |
| Cost of debt | 4.5% |
| % Debt | 12% |
| % Equity | 88% |
| WACC | 9.2% |

*Source: SFC*

SABIC is trading at a P/E of 17x, which is above the average of local and global peers P/E of 14x, and is justified by its superior gross, EBITDA, operating and net margins. A big factor contributing to these significant superior margins is the subsidized price of some of the feedstocks, so if the government completely lifts its subsidy on these feedstocks, SABIC's margins are expected to normalize and eventually align with those of its peers.

**TABLE 5: COMPS TRADING MULTIPLES**

| Company | BBG Symbol | Country | MKT Cap (USD mn) | P/E 2018E | P/E 2019E | P/E 2020E | EV/EBITDA 2018E | EV/EBITDA 2019E | EV/EBITDA 2020E | EV/Sales 2018E | EV/Sales 2019E | EV/Sales 2020E | P/B 2018E | P/B 2019E | P/B 2020E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LyondellBasell Industries N.V. | LYB US | UK | 33,413 | 7.5x | 8.0x | 7.0x | 5.7x | 5.9x | 5.5x | 1.0x | 1.0x | 1.0x | 3.1x | 2.5x | 2.2x |
| LG Chem, Ltd. | 051910 KS | South Korea | 24,786 | 15.9x | 13.0x | 14.8x | 7.2x | 6.2x | 6.4x | 1.0x | 0.8x | 0.8x | 1.5x | 1.4x | 1.3x |
| Formosa Chemicals & Fibre Corporation | 1326 TT | Taiwan | 20,066 | 11.9x | 13.1x | 13.4x | 11.1x | 12.3x | 12.4x | 1.6x | 1.7x | 1.7x | 1.7x | 1.7x | 1.6x |
| PETRONAS Chemicals Group Berhad | PCHEM MK | Malaysia | 16,470 | 14.6x | 15.0x | 13.7x | 8.4x | 8.6x | 7.9x | 3.1x | 3.1x | 2.7x | 2.3x | 2.1x | 1.9x |
| Braskem S.A. | BRKM5 BZ | Brazil | 10,505 | 17.1x | 11.5x | 13.2x | 6.0x | 6.4x | 6.6x | 1.2x | 1.2x | 1.2x | 5.3x | 3.6x | 3.0x |
| Rongsheng Petrochemical Co., Ltd. | 002493 CH | China | 10,044 | 27.3x | 12.4x | 9.5x | 21.7x | 7.7x | 5.6x | 1.4x | 0.8x | 0.6x | 3.0x | 2.5x | 2.0x |
| PT. Chandra Asri Petrochemical Tbk | TPIA IJ | Indonesia | 7,217 | 33.4x | 28.9x | 29.5x | 16.2x | 15.6x | 14.6x | 2.8x | 2.9x | 2.7x | 3.9x | 3.5x | 3.2x |
| Yanbu National Petrochemical Company | YANSAB AB | KSA | 10,065 | 14.9x | 16.4x | 16.2x | 10.5x | 11.1x | 11.4x | 4.8x | 4.9x | 5.1x | 2.1x | 2.2x | 2.1x |
| Saudi Kayan Petrochemical Company | KAYAN AB | KSA | 5,376 | 12.6x | 13.1x | 12.4x | 7.8x | 7.9x | 7.7x | 3.3x | 3.2x | 3.1x | 1.1x | 1.1x | 1.1x |
| National Petrochemical Company | PETROCH AB | KSA | 3,430 | 11.6x | 11.4x | 12.0x | 7.2x | 7.2x | 7.4x | 2.4x | 2.4x | 2.6x | 1.5x | 1.4x | 1.5x |
| Advanced Petrochemical Company | APPC AB | KSA | 2,886 | 14.9x | 13.4x | 14.9x | 12.3x | 11.5x | 12.2x | 4.2x | 3.9x | 4.0x | 3.2x | 3.1x | 3.0x |
| National Industrialization Company | NIC AB | KSA | 2,833 | 8.1x | 9.6x | 11.8x | 7.3x | 7.8x | 8.5x | 2.2x | 2.3x | 2.5x | 1.1x | 1.0x | 0.9x |
| Saudi Industrial Investment Group | SIIG AB | KSA | 2,820 | 9.3x | 8.9x | 8.9x | 7.3x | 7.3x | 7.3x | 2.7x | 2.6x | 2.6x | 1.4x | 1.3x | 1.3x |
| Korea Petrochemical Ind. Co., Ltd. | 006650 KS | South Korea | 945 | 4.9x | 4.7x | na | 2.8x | 2.8x | 3.2x | 0.5x | 0.4x | 0.5x | 0.6x | 0.5x | na |
| Westlake Chemical Partners LP | WLKP US | US | 748 | 14.6x | 12.1x | 10.8x | 3.6x | 3.6x | 3.6x | 1.4x | 1.3x | 1.2x | 3.4x | 2.6x | 2.1x |
| Trecora Resources | TREC US | US | 209 | 44.4x | 11.7x | na | 12.4x | 7.3x | na | 1.1x | 1.0x | na | 1.1x | 1.0x | na |
| **Median** | | | | **14.6x** | **12.2x** | **12.8x** | **7.6x** | **7.5x** | **7.4x** | **1.9x** | **2.0x** | **2.5x** | **1.9x** | **1.9x** | **2.0x** |
| **Saudi Basic Industries Corporation** | **SABIC AB** | **Saudi Arabia** | **96,000** | **16.7x** | **14.9x** | **19.3x** | **7.0x** | **6.8x** | **8.0x** | **2.1x** | **2.2x** | **2.2x** | **2.1x** | **2.0x** | **2.0x** |

*Source: Bloomberg, SFC*

### *Relative Valuation*

We forecast EBITDA of SAR 56bn for 2019 and multiply it by industry average EV/EBITDA of 7.2x to come up with an equity value (after adjusting for net debt) of SAR 386bn, or SAR 129 per share.

**TABLE 6: COMPS MARGINS AND RETURNS**

| | Gross Margin | | | EBITDA Margin | | | Net Margin | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **2018E** | **2019E** | **2020E** | **2018E** | **2019E** | **2020E** | **2018E** | **2019E** | **2020E** | **2018E** | **2019E** | **2020E** |
| LyondellBasell Industries N.V. | 17.6% | 16.3% | 18.2% | 18.0% | 16.9% | 17.3% | 12.2% | 10.3% | 12.0% | 17.3% | 15.1% | 14.5% |
| LG Chem, Ltd. | 17.5% | 17.4% | 17.9% | 13.3% | 13.4% | 12.6% | 5.6% | 5.8% | 6.2% | 6.2% | 7.0% | 6.2% |
| Formosa Chemicals & Fibre Corporation | 14.4% | 13.1% | 12.8% | 14.3% | 13.8% | 14.0% | 12.9% | 11.9% | 11.8% | 9.6% | 8.4% | 7.8% |
| PETRONAS Chemicals Group Berhad | 40.9% | 40.4% | 37.5% | 37.1% | 36.4% | 34.6% | 25.0% | 23.8% | 23.1% | 13.4% | 11.6% | 11.3% |
| Braskem S.A. | 20.8% | 18.6% | 16.5% | 20.5% | 18.8% | 17.7% | 5.5% | 4.4% | 6.7% | 48.5% | 31.3% | 20.2% |
| Rongsheng Petrochemical Co., Ltd. | 7.1% | 11.7% | 12.6% | 6.6% | 10.2% | 10.8% | 2.9% | 3.7% | 3.6% | 3.3% | 4.9% | 6.2% |
| PT. Chandra Asri Petrochemical Tbk | 17.4% | 19.1% | 21.0% | 17.0% | 18.4% | 18.8% | 8.4% | 9.8% | 9.1% | 9.3% | 9.7% | 9.0% |
| Yanbu National Petrochemical Company | 38.8% | 35.1% | 33.5% | 46.1% | 44.1% | 44.4% | 35.5% | 30.6% | 31.8% | 11.3% | 10.8% | 10.4% |
| Saudi Kayan Petrochemical Company | 28.1% | 24.7% | 24.7% | 42.6% | 41.0% | 39.7% | 14.9% | 11.5% | 12.9% | 4.3% | 3.5% | 3.5% |
| National Petrochemical Company | 31.5% | 31.5% | na | 35.4% | 35.4% | 35.4% | 13.2% | 13.4% | 13.1% | 16.1% | 14.2% | 13.0% |
| Advanced Petrochemical Company | 30.1% | 30.1% | 28.6% | 33.8% | 34.3% | 33.0% | 26.6% | 30.2% | 26.9% | 15.5% | 16.3% | 15.0% |
| National Industrialization Company | 28.1% | 26.7% | 19.0% | 30.6% | 29.4% | 29.7% | 10.2% | 10.0% | 8.9% | 14.4% | 10.8% | 8.1% |
| Saudi Industrial Investment Group | na | na | na | 37.4% | 35.4% | 35.4% | 15.7% | 14.9% | 14.2% | 18.2% | 18.7% | 16.1% |
| Korea Petrochemical Ind. Co., Ltd. | 15.1% | 14.1% | 14.8% | 16.6% | 15.8% | 14.3% | 9.6% | 9.4% | 9.7% | 9.9% | 9.0% | na |
| Westlake Chemical Partners LP | 31.8% | 28.4% | 28.6% | 37.9% | 34.7% | 34.2% | 4.3% | 5.8% | 7.1% | 23.2% | 23.9% | 24.4% |
| Trecora Resources | 12.0% | 16.4% | na | 8.7% | 13.4% | na | 1.7% | 5.8% | na | 1.8% | 7.0% | na |
| **Median** | **20.8%** | **19.1%** | **19.0%** | **25.5%** | **24.1%** | **29.7%** | **11.2%** | **10.1%** | **11.8%** | **12.3%** | **10.8%** | **10.8%** |
| **Saudi Basic Industries Corporation** | **34.1%** | **35.0%** | **30.4%** | **30.7%** | **32.4%** | **28.1%** | **12.7%** | **14.6%** | **11.5%** | **12.4%** | **13.3%** | **10.1%** |

*Source: Bloomberg, SFC*

## Recommendation and Conclusion

We initiate coverage on Saudi Basic Industries Corp (SABIC) with a Hold recommendation and SAR 130, 12-month target price. On valuation multiples the stock trades 14.9x 2019E P/E versus group median 12.2x, which in our view is justified considering substantial margin outperformance.

Key highlights for SABIC include efficient and stable business especially with its very moderate debt and increased support from the Saudi government towards the petrochemical sector. High and resilient profitability is mostly due to the fact that prices of feedstock needed for the company's production process are still at an advantage compared to international peers, but this is expected to change going foward. Considerable capex plans are expected for the forthcoming years due to acquisitions and new production plants, but cash flow is still expected to be strong.

SABIC bares exposure to the cyclical petrochemical and steel industries as well as to the volatile oil and gas prices. However, the company's plans in expanding both organically and through acquisitions, as well as in diversifying into more value added and stable products, should keep the company's financials strong going forward. Moreover, Aramco's acquisition of PIF's 70 percent stake in SABIC can help the company expand its operations in Saudi Arabia and potentially support it when it comes to the purchase as well as the price of feedstock.

# Summary Financials

SAR mln, ending Dec-31 st

| Income Statement | 2018 | 2019E | 2020E | 2021E | CAGR 2015-18 | CAGR 2018-21E |
|---|---|---|---|---|---|---|
| Sales | 169,090 | 165,656 | 162,934 | 161,716 | 5% | (1%) |
| Cost of sales | (111,431) | (107,595) | (113,448) | (111,925) | | |
| Gross profit | 57,659 | 58,061 | 49,485 | 49,792 | 10% | (5%) |
| G&A | (21,331) | (20,707) | (20,367) | (20,215) | | |
| Operating income | 36,328 | 37,354 | 29,119 | 29,577 | 8% | (7%) |
| Associates & JVs | 1,056 | 1,868 | 1,456 | 1,479 | | |
| Net finance cost | (1,212) | (1,030) | (1,075) | (965) | | |
| Other income | (438) | 1,121 | 874 | 887 | | |
| Non-controlling interest | (10,394) | (9,828) | (7,593) | (7,745) | | |
| Zakat & income tax | (3,796) | (5,307) | (4,100) | (4,182) | | |
| Net income | 21,543 | 24,177 | 18,679 | 19,052 | 5% | (4%) |
| Shares outstanding (mln) | 3,000 | 3,000 | 3,000 | 3,000 | | |
| **EPS (SAR)** | **7.18** | **8.06** | **6.23** | **6.35** | | |
| EBITDA | 51,887 | 53,733 | 45,825 | 46,534 | 5% | (4%) |
| DPS (SAR) | 4.40 | 5.00 | 5.50 | 5.50 | | |

| | 1Q19E | 1Q18 | *Y/Y Chg* | 4Q18 | *Q/Q Chg* |
|---|---|---|---|---|---|
| Sales | 42,699 | 41,862 | *2.0%* | 40,129 | *6.4%* |
| Cost of sales | (28,139) | (27,648) | | (27,889) | |
| Gross profit | 14,560 | 14,213 | *2.4%* | 12,240 | *19.0%* |
| G&A | (5,386) | (5,269) | | (5,740) | |
| Operating income | 9,174 | 8,945 | *2.6%* | 6,501 | *41.1%* |
| Associates & JVs | 459 | 366 | | 32 | |
| Net finance cost | 353 | (268) | | (325) | |
| Other income | 275 | 25 | | (154) | |
| Non-controlling interest | (2,565) | 6,867 | | (1,976) | |
| Zakat & income tax | (1,153) | (1,359) | | (836) | |
| Net income | 6,542 | 5,508 | *18.8%* | 3,242 | *101.8%* |
| Shares outstanding (mln) | 3,000 | 3,000 | | 3,000 | |
| EPS (SAR) | 2.2 | 1.8 | | 1.1 | |
| EBITDA | 13,268 | 12,600 | *5.3%* | 10,510 | *26.2%* |

| Balance Sheet | 2018 | 2019E | 2020E | 2021E | CAGR 2015-18 | CAGR 2018-21E |
|---|---|---|---|---|---|---|
| Cash & equivalents | 52,387 | 76,412 | 77,459 | 81,157 | 4% | 16% |
| Inventories | 28,183 | 27,212 | 28,693 | 28,308 | | |
| Trade receivables | 21,568 | 22,038 | 22,569 | 23,286 | | |
| Other current items | 5,841 | 5,723 | 4,888 | 4,851 | | |
| Current assets | 107,979 | 131,385 | 133,609 | 137,602 | (3%) | 8% |
| PP&E | 163,787 | 167,063 | 169,569 | 169,569 | | |
| Investments | 25,803 | 25,000 | 25,000 | 25,000 | | |
| Other non-assets | 22,555 | 19,502 | 20,042 | 20,603 | | |
| Total assets | 320,124 | 342,949 | 348,219 | 352,775 | (1%) | 3% |
| Payables | 18,693 | 17,527 | 18,892 | 18,335 | | |
| ST debt | 4,918 | 12,000 | 13,000 | 15,000 | | |
| Other current items | 13,799 | 18,252 | 19,664 | 20,554 | | |
| Current liabilities | 37,410 | 47,780 | 51,556 | 53,890 | (4%) | 13% |
| LT debt | 42,425 | 42,000 | 42,000 | 42,000 | | |
| Other non-current liabilities | 18,839 | 20,409 | 20,164 | 20,054 | | |
| Total liabilities | 98,674 | 110,189 | 113,721 | 115,944 | (6%) | 6% |
| Total equity | 221,450 | 232,760 | 234,499 | 236,831 | 2% | 2% |
| Total liabilities & equity | 320,124 | 342,949 | 348,219 | 352,775 | (1%) | 3% |

| Growth (Y/Y) | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Sales | 12.9% | -2.0% | -1.6% | -0.7% |
| EBITDA | 20.9% | 3.6% | -14.7% | 1.5% |
| EBIT | 25.3% | 2.8% | -22.0% | 1.6% |
| Net income | 16.9% | 12.2% | -22.7% | 2.0% |

| Margins | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Gross | 34.1% | 35.0% | 30.4% | 30.8% |
| EBITDA | 30.7% | 32.4% | 28.1% | 28.8% |
| EBIT | 21.5% | 22.5% | 17.9% | 18.3% |
| Net | 12.7% | 14.6% | 11.5% | 11.8% |

| Ratios | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Current | 2.9x | 2.7x | 2.6x | 2.6x |
| ROA | 6.7% | 7.0% | 5.4% | 5.4% |
| ROE | 12.4% | 13.3% | 10.1% | 10.2% |
| Payout | 61.3% | 62.0% | 88.3% | 86.6% |
| CCC | 78 | 81 | 82 | 84 |
| D / E | 0.2x | 0.2x | 0.2x | 0.2x |
| Net debt / EBITDA | 0.1x | -0.2x | -0.3x | -0.2x |

| Statement of Cashflows | 2018 | 2019E | 2020E | 2021E | CAGR 2015-18 | CAGR 2018-21E |
|---|---|---|---|---|---|---|
| Income before zakat & tax | 35,733 | 29,484 | 22,780 | 23,234 | | |
| Non-cash items | 17,125 | 26,408 | 24,989 | 25,290 | | |
| Working capital changes | (1,841) | 4,133 | 1,355 | (72) | | |
| Other items | (5,989) | (5,253) | (5,435) | (5,407) | | |
| Cash from operations | 45,028 | 54,772 | 43,688 | 43,045 | (6%) | (1%) |
| Purchase of PP&E | (14,499) | (19,654) | (19,212) | (16,957) | | |
| Other investing activities | (15,012) | 4,410 | 106 | (4,925) | | |
| Cash from investing | (29,511) | (15,244) | (19,106) | (21,882) | 32% | (9%) |
| Net dividends | (20,833) | (22,695) | (24,534) | (24,464) | | |
| Debt (payments) / proceeds | (10,904) | 6,658 | 1,000 | 2,000 | | |
| Cash from financing | (31,737) | (16,037) | (23,534) | (22,464) | (4%) | (11%) |
| Change in cash | (16,220) | 23,490 | 1,047 | (1,302) | | |
| Beginning cash | 57,974 | 42,921 | 66,412 | 67,459 | | |
| Ending cash | 41,754 | 66,412 | 67,459 | 66,157 | | |

| Valuation | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| P / E | 16.7x | 14.9x | 19.3x | 18.9x |
| EV / EBITDA | 7.0x | 6.8x | 8.0x | 7.8x |
| P / S | 2.1x | 2.2x | 2.2x | 2.2x |
| P / B | 2.1x | 2.0x | 2.0x | 1.9x |

| DCF Valuation Summary (SAR) | |
|---|---|
| WACC | 9.2% |
| Enterprise value (SAR mln) | 396,092 |
| Equity value (SAR mln) | 391,671 |
| **Fair value per share** | **131** |

## MEG Price Weakness to Persist

Yanbu National Petrochemical Co. (Yansab) is an affiliate of SABIC, which owns 51% of the company. Yansab is SABIC's largest petrochemical complex, and engages in the production of numerous petrochemical products such as polypropylene, polyethylene, butene and ethylene glycol.

### Strong balance sheet

Yansab started paying down its debt in 2012, and ultimately having zero leverage by 2017. This is a great advantage for the company as not only would it have an enhanced cash flow, reduced volatility in earnings and resilience to fluctuating product prices, but it would also give it flexibility in case it would need financing for any expansion projects going forward.

### Negative outlook for MEG

Monoethylene glycol (MEG) is Yansab's major end product, accounting for around 35% of its sales. According to IHS Markit, more global MEG capacities are coming on stream in 2019, and the increase in supply (6.8%) is to comfortably exceed that of demand (4%) in the forthcoming years, exerting downward pressure on price. As such, the downward trend we witnessed in the second half of 2018 is expected to persist.

### Export oriented

Yansab is considered to be an export oriented company, with more than 80% of its sales taking place outside of KSA. This results in the company being more exposed to the international economic conditions in general, and specifically to major economies such as China and the US.

### Initiate with Hold and SAR 73 target price

We applied DCF and relative Valuation blended approach to value Yansab. For DCF, we assume capital structure with 100% equity and cost of equity (WACC) of 8.5%. We arrive at a fair value of SAR 73 per share, equating to 14.3x 2019E P/E versus 12.2x for global peers. In our view, the premium is justified considering substantially higher margins Yansab commands relative to peers.

| Rating Summary | |
|---|---|
| **Recommendation** | **Hold** |
| **12-Month Target Price (SAR)** | **73** |
| **Upside / (Downside)** | **5.9%** |
| **Dividend Yield** | **5.4%** |
| **Expected Total Return** | **11.3%** |

| Stock Details (SAR) | |
|---|---|
| Last Close Price | 68.90 |
| Market Capitalization (mn) | 38,756 |
| Shares Outstanding (mn) | 562.5 |
| 52-Week High / Low | 77.50 / 58.00 |
| Price Change (YTD) | 2.9% |
| 12-Mth ADTV (000s) | 412 |
| Reuters / Bloomberg | 2290.SE / YANSAB AB |

| | 2018 | 2019E | 2020E |
|---|---|---|---|
| Revenue (mn) | 7,629 | 7,464 | 7,887 |
| EBITDA (mn) | 3,452 | 3,739 | 3,691 |
| EPS | 4.29 | 4.80 | 4.82 |
| DPS | 3.25 | 3.75 | 3.75 |

| Key Shareholders | |
|---|---|
| SABIC | 51% |
| GOSI | 12% |
| Free Float | 37% |

| Price Multiples | 2018 | 2019E | 2020E |
|---|---|---|---|
| P / E | 16.1x | 14.3x | 16.7x |
| EV / EBITDA | 10.7x | 10.0x | 11.4x |
| P / S | 5.1x | 5.1x | 5.1x |
| P / B | 2.2x | 2.2x | 2.1x |

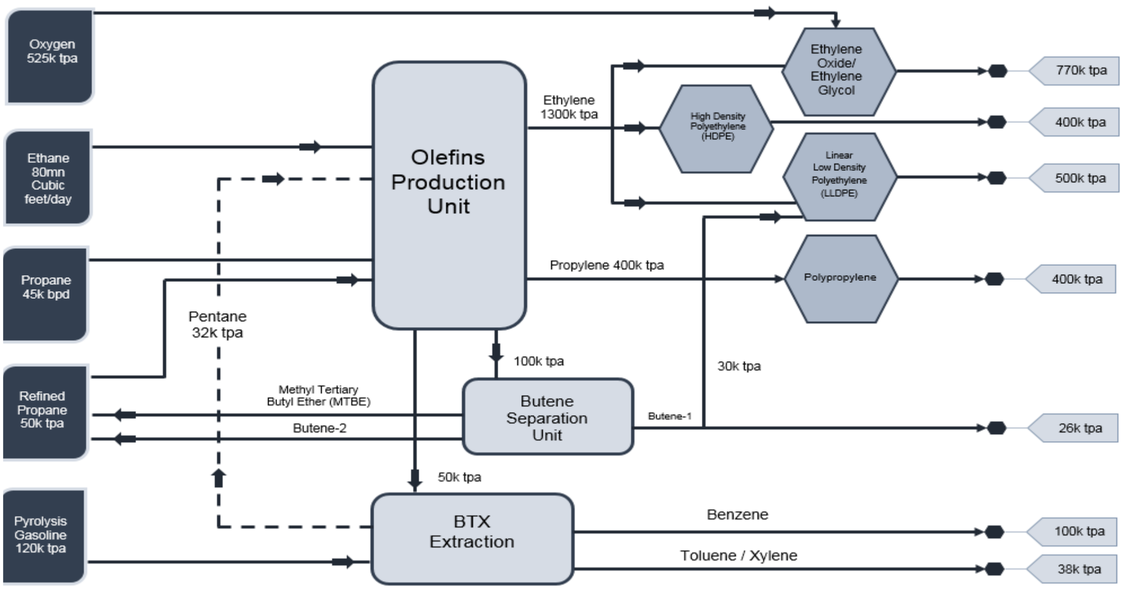
**1-Year Share Performance (rebased)**


*Source: Bloomberg, Tadawul*

# Company Background

Yanbu National Petrochemical Company (Yansab) is an affiliate of SABIC, which owns 51% of the company. It was set up in 2005, with the IPO taking place in January 2006 and production commencing in March 2010. Yansab operates SABIC's largest petrochemical complex. It has an annual capacity of more than 4 MT of petrochemicals that includes polyethylene, polypropylene and monoethylene glycol, among other products.

**FIG 24: YANSAB PRODUCTION PROCESS**




*Source: Argaam*

Yansab has a strong balance sheet. It started paying down debt from 2013, and entirely deleveraged by 2017, resulting in net cash position. Moreoever, the company has maintained a net profit margin above 30% for the past 3 years, and has surpassed most of its Saudi peers in gross, operating, EBITDA and net margins.

**TABLE 7: LTM MARGINS COMPARISON**

| | Margins | | | | | |
|---|---|---|---|---|---|---|
| | **Gross** | **EBITDA** | **EBIT** | **Net** | **ROA** | **ROE** |
| SABIC | 34.1% | 30.7% | 21.5% | 12.7% | 14.8% | 7.1% |
| Kayan | 27.4% | 40.2% | 21.7% | 13.9% | 11.5% | 4.1% |
| Petrochem | 20.5% | 72.0% | 21.0% | 10.8% | 2.2% | 1.3% |
| Advanced | 29.1% | 32.2% | 24.5% | 24.9% | 20.8% | 8.7% |
| TASNEE | 27.4% | 18.3% | 11.7% | 11.6% | 14.8% | 2.5% |
| SIIG | 33.8% | 35.9% | 26.0% | 13.9% | 18.2% | 5.7% |
| **Average** | **28.7%** | **38.2%** | **21.1%** | **14.6%** | **13.7%** | **4.9%** |
| YANSAB | 37.6% | 45.3% | 31.0% | 31.6% | 12.7% | 14.0% |

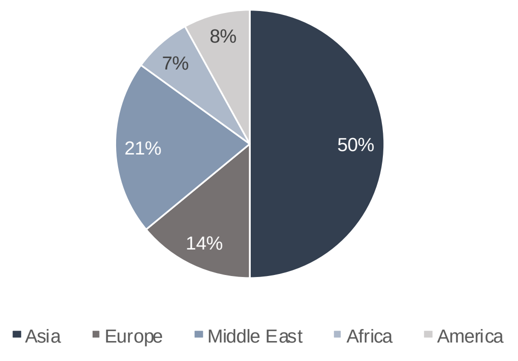
*Source: Company Reports, Bloomberg*

The company's modest increase in earnings in the past year was mainly due to the fact that sales volume decreased because of the shutdown of the ethylyne glycol plant that took place in 4Q18. The reason for this shutdown was for regular maintenance as well as an expansion project which will increase capacity going forward.

Monoethylene Glycol (MEG) is Yansab's main product, the price of which has been steadily decreasing since the beginning of 3Q18. According to IHS Markit, in addition to the new capacity to be added by Yansab, MEG capacity is set to increase internationally in the forthcoming years, resulting in growth of

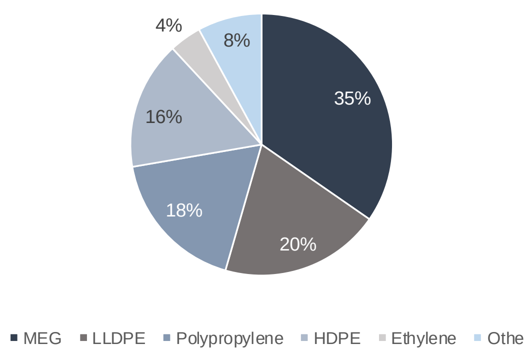
supply of the product outpacing demand. Moreoever, Yansab exports a significant part of its products to China, which is continuing trade negotiations with the US.

**FIG 25: GEOGRAPHICAL BREAKDOWN OF SALES**




*Source: Company Reports*

**FIG 26: SALES BREAKDOWN BY PRODUCT**




*Source: Company Reports*

## *Valuation*

We applied a blended approach in our valuation for Yansab: discounted cash flow and relative valuation (EV/EBITDA).

### *Discounted Cash flow*

In our DCF approach, we assume a capital structure of 100% equity, which reflects the current capital structure for Yansab. Cost of equity and WACC is calculated at 8.5%. In calculating the terminal value, we forecast a long-term growth rate of 2.5%. The DCF approach ascribes a fair value per share of SAR 71.

**TABLE 8: DCF VALUATION**

| DCF (SAR mn) | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|
| EBIT | 2,611 | 2,227 | 2,237 | 2,232 | 1,911 | 1,922 | 1,932 |
| + Depreciation & amort | 1,077 | 1,018 | 957 | 895 | 837 | 783 | 732 |
| - Zakat | 96 | 82 | 82 | 82 | 71 | 71 | 72 |
| - Wokring capital changes | (433) | (95) | 92 | (11) | 0 | 20 | 8 |
| - Capex | 379 | 298 | 224 | 210 | 196 | 183 | 171 |
| **FCFF** | **3,646** | **2,959** | **2,796** | **2,847** | **2,480** | **2,430** | **2,413** |
| PV of FCFF | 14,619 | | | | | | |
| PV of terminal value | 23,283 | | | | | | |
| Enterprise value | 37,903 | | | | | | |
| Net debt | (1,776) | | | | | | |
| Equity value | 39,678 | | | | | | |
| Shares outstanding (mn) | 563 | | | | | | |
| Value per share (SAR) | 71 | | | | | | |

| Assumptions | |
|---|---|
| Risk free rate | 3.5% |
| LT growth rate | 2.5% |
| Beta | 0.76 |
| Equity risk premium | 6.58% |
| Cost of equity | 8.5% |
| Cost of debt | 0.0% |
| % Debt | 0% |
| % Equity | 100% |
| WACC | 8.5% |

*Source: SFC*

### *Relative Valuation*

We forecast EBITDA of SAR 3,688mn for 2019 and multiply it by industry average EV/EBITDA of 7.2x to come up with an equity value (after adjusting for net cash) of SAR 43.6bn, or SAR 78 per share.

**TABLE 9: COMPS TRADING MULTIPLES**

| Company | BBG Symbol | Country | MKT Cap (USD mn) | P/E 2018E | P/E 2019E | P/E 2020E | EV/EBITDA 2018E | EV/EBITDA 2019E | EV/EBITDA 2020E | EV/SALES 2018E | EV/SALES 2019E | EV/SALES 2020E | P/B 2018E | P/B 2019E | P/B 2020E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LyondellBasell Industries N.V. | LYB US | UK | 33,413 | 7.5x | 8.0x | 7.0x | 5.7x | 5.9x | 5.5x | 1.0x | 1.0x | 1.0x | 3.1x | 2.5x | 2.2x |
| LG Chem, Ltd. | 051910 KS | South Korea | 24,786 | 15.9x | 13.0x | 14.8x | 7.2x | 6.2x | 6.4x | 1.0x | 0.8x | 0.8x | 1.5x | 1.4x | 1.3x |
| Formosa Chemicals and Fibre Corp | 1326 TT | Taiwan | 20,066 | 11.9x | 13.1x | 13.4x | 11.1x | 12.3x | 12.4x | 1.6x | 1.7x | 1.7x | 1.7x | 1.7x | 1.6x |
| PETRONAS Chemicals Group Berha | PCHEM MK | Malaysia | 16,470 | 14.6x | 15.0x | 13.7x | 8.4x | 8.6x | 7.9x | 3.1x | 3.1x | 2.7x | 2.3x | 2.1x | 1.9x |
| Braskem S.A. | BRKM5 BZ | Brazil | 10,505 | 17.1x | 11.5x | 13.2x | 6.0x | 6.4x | 6.6x | 1.2x | 1.2x | 1.2x | 5.3x | 3.6x | 3.0x |
| Rongsheng Petrochemical Co., Ltd. | 002493 CH | China | 10,044 | 27.3x | 12.4x | 9.5x | 21.7x | 7.7x | 5.6x | 1.4x | 0.8x | 0.6x | 3.0x | 2.5x | 2.0x |
| PT. Chandra Asri Petrochemical Tb | TPIA IJ | Indonesia | 7,217 | 33.4x | 28.9x | 29.5x | 16.2x | 15.6x | 14.6x | 2.8x | 2.9x | 2.7x | 3.9x | 3.5x | 3.2x |
| Saudi Basic Industries Corporation | SABIC AB | KSA | 98,238 | 16.2x | 16.1x | 15.8x | 7.3x | 7.5x | 7.9x | 2.3x | 2.5x | 2.5x | 2.0x | 2.0x | 1.9x |
| Saudi Kayan Petrochemical Compa | KAYAN AB | KSA | 5,376 | 12.6x | 13.1x | 12.4x | 7.8x | 7.9x | 7.7x | 3.3x | 3.2x | 3.1x | 1.1x | 1.1x | 1.1x |
| National Petrochemical Company | PETROCH A | KSA | 3,430 | 11.6x | 11.4x | 12.0x | 7.2x | 7.2x | 7.4x | 2.4x | 2.4x | 2.6x | 1.5x | 1.4x | 1.5x |
| Advanced Petrochemical Company | APPC AB | KSA | 2,886 | 14.9x | 13.4x | 14.9x | 12.3x | 11.5x | 12.2x | 4.2x | 3.9x | 4.0x | 3.2x | 3.1x | 3.0x |
| National Industrialization Company | NIC AB | KSA | 2,833 | 8.1x | 9.6x | 11.8x | 7.3x | 7.8x | 8.5x | 2.2x | 2.3x | 2.5x | 1.1x | 1.0x | 0.9x |
| Saudi Industrial Investment Group | SIIG AB | KSA | 2,820 | 9.3x | 8.9x | 8.9x | 7.3x | 7.3x | 7.3x | 2.7x | 2.6x | 2.6x | 1.4x | 1.3x | 1.3x |
| Korea Petrochemical Ind. Co., Ltd. | 006650 KS | South Korea | 945 | 4.9x | 4.7x | na | 2.8x | 2.8x | 3.2x | 0.5x | 0.4x | 0.5x | 0.6x | 0.5x | na |
| Westlake Chemical Partners LP | WLKP US | US | 748 | 14.6x | 12.1x | 10.8x | 3.6x | 3.6x | 3.6x | 1.4x | 1.3x | 1.2x | 3.4x | 2.6x | 2.1x |
| Trecora Resources | TREC US | US | 209 | 44.4x | 11.7x | na | 12.4x | 7.3x | na | 1.1x | 1.0x | na | 1.1x | 1.0x | na |
| **Median** | | | | **14.6x** | **12.2x** | **12.8x** | **7.3x** | **7.4x** | **7.4x** | **1.9x** | **2.0x** | **2.5x** | **1.8x** | **1.8x** | **1.9x** |
| **Yanbu National Petrochemical C** | **YANSAB AB** | **Saudi Arabi** | **10,065** | **16.1x** | **14.3x** | **16.7x** | **10.7x** | **10.0x** | **11.4x** | **4.8x** | **4.9x** | **4.9x** | **2.2x** | **2.2x** | **2.1x** |

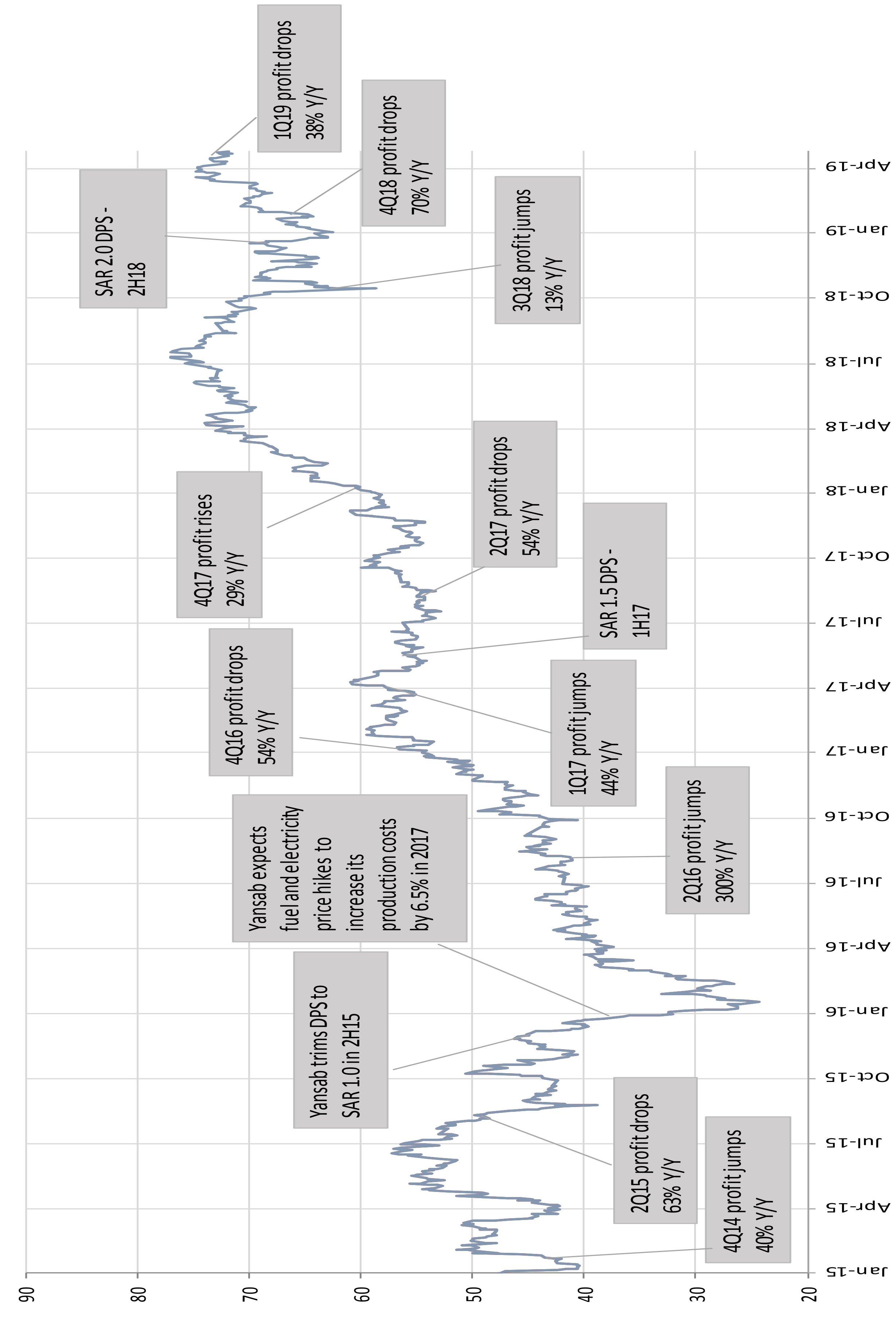
*Source: Bloomberg, SFC*

## *Recommendation and Conclusion*

We initiate coverage on Yanbu National Petrochemical Company (Yansab) with a Hold recommendation and SAR 73, 12-month target price. On valuation multiples the stock trades at 14.3x 2019E P/E versus group median of 12.2x, which is due to superior margins compared to local and international peers.

Key highlights for Yansab include high flexibility and financial strength mainly due to zero leverage and superior profit margins. Nevertheless, Yansab's considerable reliance on MEG is a point of worry due to supply increase in the upcoming years.

FIG 27: YANSAB'S PRICE PERFORMANCE




*Source: Company Reports*

# Summary Financials (Yansab)

| Income Statement | 2018 | 2019E | 2020E | 2021E | 2015-18 | 2018-21E | 1Q19E | 1Q18 | Y/Y Chg | 4Q18 | Q/Q Chg |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 7,628 | 7,567 | 7,600 | 7,637 | *3%* | *0%* | 1,773 | 1,787 | *-0.8%* | 1,619 | *9.5%* |
| Cost of sales | (4,763) | (4,554) | (4,970) | (4,994) | | | (1,077) | (1,047) | | (1,271) | |
| Gross profit | 2,865 | 3,013 | 2,631 | 2,644 | *18%* | *(3%)* | 695 | 740 | *-6.0%* | 349 | *99.3%* |
| G&A | (504) | (402) | (404) | (406) | | | (94) | (105) | | (149) | |
| Operating income | 2,362 | 2,611 | 2,227 | 2,237 | *15%* | *(2%)* | 601 | 635 | *-5.3%* | 349 | *72.3%* |
| Associates & JVs | | | | | | | | | | | |
| Net finance cost | 48 | 78 | 78 | 78 | | | 20 | 1.3 | | 20 | |
| Other income | 103 | 117 | 100 | 101 | | | 27 | 30 | | 20 | |
| Non-controlling interest | | | | | | | | | | | |
| Zakat & income tax | (98) | (96) | (82) | (82) | | | (25) | (35) | | (6) | |
| Net income | 2,414 | 2,711 | 2,323 | 2,334 | *26%* | *(1%)* | 622 | 631 | *-1.3%* | 233 | *166.6%* |
| Shares outstanding (mln) | 563 | 563 | 563 | 563 | | | 563 | 563 | | 563 | |
| **EPS (SAR)** | **4.29** | **4.82** | **4.13** | **4.15** | | | 1.1 | 1.1 | | 0.4 | |
| EBITDA | 3,452 | 3,688 | 3,245 | 3,195 | *9%* | *(3%)* | 917 | 899 | | 479 | |
| DPS (SAR) | 3.75 | 3.75 | 3.75 | 4.00 | | | | | | | |

| | | | | | CAGR | |
|---|---|---|---|---|---|---|
| **Balance Sheet** | **2018** | **2019E** | **2020E** | **2021E** | **2015-18** | **2018-21E** |
| Cash & equivalents | 26 | 1,776 | 2,803 | 3,528 | *(66%)* | *413%* |
| Inventories | 770 | 686 | 749 | 752 | | |
| Trade receivables | 2,341 | 2,300 | 2,310 | 2,321 | | |
| Other current items | 3,090 | 3,090 | 3,090 | 3,090 | | |
| Current assets | 6,228 | 7,852 | 8,952 | 9,691 | *(1%)* | *16%* |
| PP&E | 12,617 | 11,923 | 11,208 | 10,480 | | |
| Investments | - | - | - | - | | |
| Other non-assets | 227 | 225 | 224 | 222 | | |
| Total assets | 19,072 | 20,001 | 20,384 | 20,393 | *(3%)* | *2%* |
| Payables | 410 | 700 | 788 | 782 | | |
| ST debt | - | - | - | - | | |
| Other current items | 934 | 952 | 1,031 | 959 | | |
| Current liabilities | 1,344 | 1,651 | 1,819 | 1,742 | *(21%)* | *9%* |
| LT debt | - | - | - | - | | |
| Other non-current liabilities | 472 | 493 | 495 | 497 | | |
| Total liabilities | 1,816 | 2,144 | 2,314 | 2,239 | *(31%)* | *7%* |
| Total equity | 17,256 | 17,857 | 18,071 | 18,155 | *4%* | *2%* |
| Total liabilities & equity | 19,072 | 20,001 | 20,384 | 20,393 | *(3%)* | *2%* |

| | | | | | CAGR | |
|---|---|---|---|---|---|---|
| **Statement of Cashflows** | **2018** | **2019E** | **2020E** | **2021E** | **2015-18** | **2018-21E** |
| Income before zakat & tax | 2,512 | 2,806 | 2,405 | 2,416 | | |
| Non-cash items | 1,132 | 1,097 | 1,020 | 960 | | |
| Working capital changes | 468 | 433 | 95 | (92) | | |
| Other items | (184) | (96) | (82) | (82) | | |
| Cash from operations | 3,928 | 4,241 | 3,438 | 3,201 | *5%* | *(7%)* |
| Purchase of PP&E | (751) | (379) | (298) | (224) | | |
| Other investing activities | (1,107) | (3) | (3) | (3) | | |
| Cash from investing | (1,858) | (382) | (301) | (227) | *(10%)* | *(50%)* |
| Net dividends | (1,966) | (2,109) | (2,109) | (2,250) | | |
| Debt (payments) / proceeds | (1,130) | - | - | - | | |
| Cash from financing | (3,097) | (2,109) | (2,109) | (2,250) | *3%* | *(10%)* |
| Change in cash | (1,026) | 1,750 | 1,028 | 724 | | |
| Beginning cash | 1,052 | 26 | 1,776 | 2,803 | | |
| Ending cash | 26 | 1,776 | 2,803 | 3,528 | | |

| Growth (Y/Y) | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Sales | 5.6% | -0.8% | 0.4% | 0.5% |
| EBITDA | -1.5% | 6.8% | -12.0% | -1.5% |
| EBIT | -2.2% | 10.5% | -14.7% | 0.5% |
| Net income | 1.6% | 12.3% | -14.3% | 0.5% |

| Margins | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Gross | 37.6% | 39.8% | 34.6% | 34.6% |
| EBITDA | 45.3% | 48.7% | 42.7% | 41.8% |
| EBIT | 31.0% | 34.5% | 29.3% | 29.3% |
| Net | 31.6% | 35.8% | 30.6% | 30.6% |

| Ratios | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| Current | 4.6x | 4.8x | 4.9x | 5.6x |
| ROA | 12.7% | 13.6% | 11.4% | 11.4% |
| ROE | 14.0% | 15.2% | 12.9% | 12.9% |
| Payout | 87.4% | 77.8% | 90.8% | 96.4% |
| CCC | 128 | 99 | 99 | 97 |
| D / E | 0.0x | 0.0x | 0.0x | 0.0x |
| Net debt / EBITDA | 0.0x | -0.5x | -0.9x | -1.1x |

| Valuation | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|
| P / E | 16.1x | 14.3x | 16.7x | 16.6x |
| EV / EBITDA | 10.7x | 10.0x | 11.4x | 11.6x |
| P / S | 5.1x | 5.1x | 5.1x | 5.1x |
| P / B | 2.2x | 2.2x | 2.1x | 2.1x |

| DCF Valuation Summary (SAR) | |
|---|---|
| WACC | 8.5% |
| Enterprise value (SAR mln) | 37,903 |
| Equity value (SAR mln) | 39,678 |
| **Fair value per share** | **71** |

# Modest Share Price Upside

Saudi Kayan Petrochemical Co. (Kayan), is another affiliate of SABIC, which owns 35% of the company's shares. The Saudi Kayan petrochemical complex in Jubail is the first to produce polycarbonate in the Middle East.

### High exposure to butane as feedstock

Unlike ethane and methane, both of which have a fixed price that is currently set by the Saudi government, the price of butane in Saudi Arabia is based on the Japan benchmark price but with a 20% discount. With Kayan having feedstock usage that is mainly based on butane (85%), it results in the company having much more volatile COGS compared to its local peers.

### Debottlenecking projects

Saudi Kayan undertook two debottlenecking projects in its production complex in 2017. It resulted in a temporary drop in utilization rate but ultimately paid off and resulted in a considerable increase in production capacity.

### From loss making to a profitable company

As a result of the debottlenecking projects, along with enhanced operational efficiency and the integration of a new ethylene cracking furnace in order to introduce more ethane to its product mix, Kayan transformed from a loss making company (~SAR 1.2bn net loss in 2015) to a profitable one (~SAR 1.8bn net profit in 2018). Nevertheless, the company has not paid any dividends toshareholders yet.

### Initiate with Hold and SAR 14 target price

We applied DCF and relative valuation blended approach to value Kayan. For DCF, we assume 55-45 debt-equity mix yielding 7.2% WACC.  We arrive at a fair value of SAR 14 per share, equating to 14.0x 2019E P/E versus 12.2x for global peers.

| Rating Summary | |
|---|---|
| **Recommendation** | **Hold** |
| **12-Month Target Price (SAR)** | **14** |
| **Upside / (Downside)** | **11.6%** |
| **Dividend Yield** | **0%** |
| **Expected Total Return** | **11.6%** |

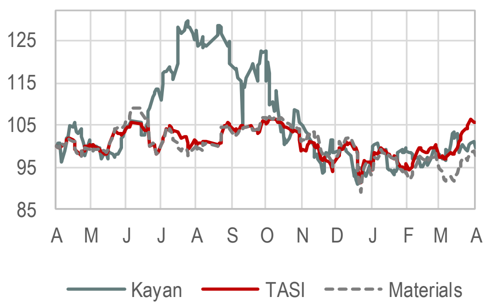
| Stock Details (SAR) | |
|---|---|
| Last Close Price | 12.54 |
| Market Capitalization (mln) | 19,950 |
| Shares Outstanding (mln) | 1,500 |
| 52-Week High / Low | 18.52 / 12.86 |
| Price Change (YTD) | (10.2%) |
| 12-Mth ADTV (000s) | 8,827 |
| Reuters / Bloomberg | 2350.SE / KAYAN AB |

| | 2018 | 2019E | 2020E |
|---|---|---|---|
| Revenue (mln) | 12,263 | 11,400 | 11,257 |
| EBITDA (mln) | 4,918 | 4,544 | 4,291 |
| EPS | 1.13 | 1.02 | 0.94 |
| DPS | 0.00 | 0.00 | 0.00 |

| Key Shareholders | |
|---|---|
| SABIC | 35% |
| Free Float | 65% |

| Price Multiples | 2018 | 2019E | 2020E |
|---|---|---|---|
| P / E | 11.0x | 12.3x | 13.3x |
| EV / EBITDA | 8.0x | 8.6x | 9.1x |
| P / S | 1.5x | 1.6x | 1.7x |
| P / B | 1.2x | 1.1x | 1.0x |

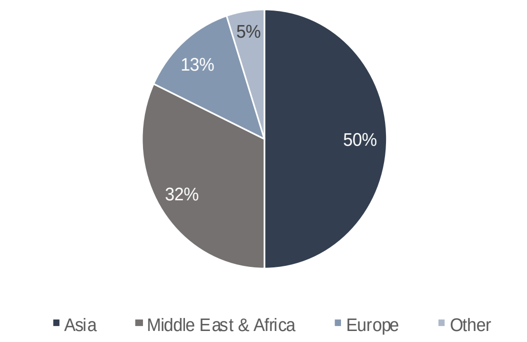
### 1-Year Share Performance (rebased)



## Company Background

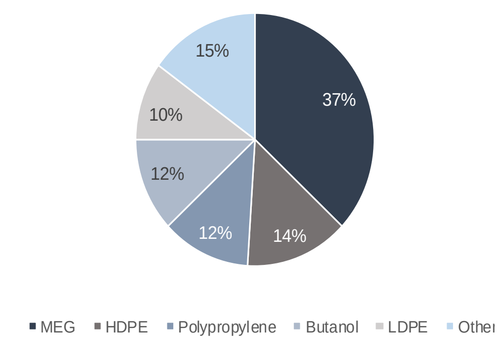
Saudi Kayan Petrochemical Company (Kayan) is another affiliate of SABIC (35% ownership). The company was established in 2006, and the Kayan petrochemical complex, which is the first producer of polycarbonate in the Middle East, started operations in 2010. It has an annual capacity of 6.6 MT in petrochemical products that mainly includes polyethylene, polypropylene, monoethylene glycol, ethylene oxide, butanol and polycarbonate. Its feedstock usage is 15% ethane and 85% butane.

**FIG 28: GEOGRAPHICAL BREAKDOWN OF SALES**




*Source: Company Reports*

**FIG 29: SALES BREAKDOWN BY PRODUCT**

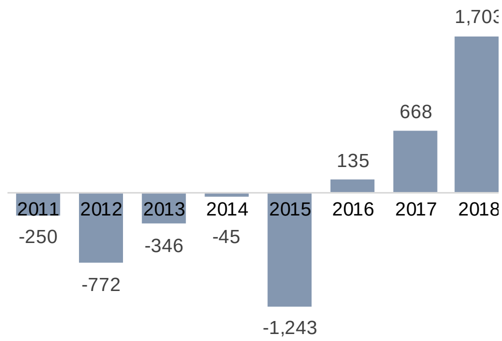



*Source: Company Reports*

The price of butane is not fixed by the Saudi government. It is priced based on the butane price benchmark in Japan with a 20% discount. This makes the COGS of Kayan volatile compared with other local petrochemical firms. Nevertheless, the ethylene glycol plant expansion project that ended in Q4 2017 not only increased production capacity by 40 percent, but also introduced more ethane into the feedstock mix, lowering the average feedstock price for the company.

Up until 2016, Saudi Kayan never realized profits, and it has never paid any dividends. The reasons for these constant losses included maintenance shutdown, production delays, cost and time overruns in the projects that were being implemented and a drop in the prices of the company's products.

**FIG 30: EARNINGS (SAR MN)**




*Source: Company Reports*

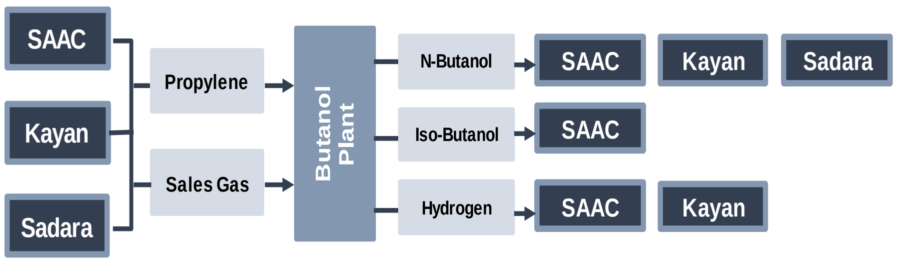
In 2017, Saudi Kayan undertook two debottlenecking projects with a cost of SAR 435 mn for its olefins and ethylene oxide plants. The end result was an increase in annual production capacity for ethylene and ethylene oxide of 93,000 and 61,000 tons, respectively. Moreover, Kayan undertook a project to include a new ethylene cracking furnace in order to introduce more ethane into its feedstock mix, ultimately resulting in lower and more stable COGS. These projects payed off, and Kayan witnessed a significant

improvement in its plant operational reliability and performance in 2018, which was proven by an outstanding bottomline compared with previous years.

### *Saudi Butanol Company (SaBuCo)*

In 2013, Saudi Kayan, Sadara Chemical Company (Sadara) and Saudi Acrylic Company (SAAC) formed a joined venture to construct the first butanol plant in the Middle East and the largest in the world. Construction work commenced in 2014 and the plant was operational in March 2016. The plant produces 330,000 tons of n-butanol and 11,000 tons of iso-butanol annually, along with some hydrogen capacity as well. Both of these products are used as intermediates in the construction industry, and the plant specifically serves the expanding paints and coatings industry in KSA. The n-butanol produced will be distributed equally between Kayan, Sadara and SAAC, whereby each company is responsible for supplying their share of the feedstock needed and then offloading their share of the end product. Iso-butanol production will all be made available to SAAC, whereas one-third of hydrogen capacity will be distributed to SAAC and two-thirds of the capacity to Kayan. The joint venture added a new downstream product to Kayan's portfolio.

**FIG 31: SABUCO JV STRUCTURE**




*Source: Argaam*

## *Valuation*

We applied a blended approach in our valuation for Kayan: discounted cash flow and relative valuation (EV/EBITDA).

### *Discounted Cash flow*

In our DCF approach, we assume a capital structure of 45% equity and 55% debt, which reflects the current capital structure for Kayan. Cost of equity is calculated as 10.4% and cost of debt at 4.5% to come up with a WACC of 7.2%. In calculating the terminal value, we forecast a long-term growth rate of 2.5%. The DCF approach ascribes a fair value per share of SAR 14.

**TABLE 10: DCF VALUATION**

| DCF (SAR mn) | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|
| EBIT | 2,440 | 2,268 | 2,207 | 2,179 | 2,000 | 1,909 | 1,780 |
| + Depreciation & amort | 2,119 | 2,038 | 1,960 | 1,884 | 1,831 | 1,779 | 1,746 |
| - Zakat | 220 | 204 | 202 | 204 | 184 | 175 | 164 |
| - Wokring capital changes | 478 | (29) | (128) | 436 | 42 | 438 | 101 |
| - Capex | 922 | 886 | 852 | 1,092 | 1,061 | 1,289 | 1,265 |
| **FCFF** | **2,939** | **3,245** | **3,241** | **2,331** | **2,544** | **1,786** | **1,996** |
| PV of FCFF | 14,180 | | | | | | |
| PV of terminal value | 27,067 | | | | | | |
| Enterprise value | 41,247 | | | | | | |
| Net debt | 20,342 | | | | | | |
| Equity value | 20,904 | | | | | | |
| Shares outstanding (mn) | 1,500 | | | | | | |
| Value per share (SAR) | 14 | | | | | | |

| Assumptions | |
|---|---|
| Risk free rate | 3.5% |
| LT growth rate | 2.5% |
| Beta | 1.05 |
| Equity risk premium | 6.58% |
| Cost of equity | 10.4% |
| Cost of debt | 4.5% |
| % Debt | 55% |
| % Equity | 45% |
| WACC | 7.2% |

*Source: SFC*

## Relative Valuation

We forecast EBITDA of SAR 4,544mn for 2019 and multiply it by industry average EV/EBITDA of 7.2x to come up with an equity value (after adjusting for net debt) of SAR 21.5bn, or SAR 14 per share.

**TABLE 11: COMPS TRADING MULTIPLES**

| | | | MKT Cap | P/E | | | EV/EBITDA | | | EV/Sales | | | P/B | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **BBG Symbol** | **Country** | **(USD mn)** | **2018** | **2019E** | **2020E** | **2018** | **2019E** | **2020E** | **2018** | **2019E** | **2020E** | **2018** | **2019E** | **2020E** |
| LyondellBasell Industries N.V. | LYB US | UK | 33,413 | 7.5x | 8.0x | 7.0x | 5.7x | 5.9x | 5.5x | 1.0x | 1.0x | 1.0x | 3.1x | 2.5x | 2.2x |
| LG Chem, Ltd. | 051910 KS | South Korea | 24,786 | 15.9x | 13.0x | 14.8x | 7.2x | 6.2x | 6.4x | 1.0x | 0.8x | 0.8x | 1.5x | 1.4x | 1.3x |
| Formosa Chemicals & Fibre Corporation | 1326 TT | Taiwan | 20,066 | 11.9x | 13.1x | 13.4x | 11.1x | 12.3x | 12.4x | 1.6x | 1.7x | 1.7x | 1.7x | 1.7x | 1.6x |
| PETRONAS Chemicals Group Berhad | PCHEM MK | Malaysia | 16,470 | 14.6x | 15.0x | 13.7x | 8.4x | 8.6x | 7.9x | 3.1x | 3.1x | 2.7x | 2.3x | 2.1x | 1.9x |
| Braskem S.A. | BRKM5 BZ | Brazil | 10,505 | 17.1x | 11.5x | 13.2x | 6.0x | 6.4x | 6.6x | 1.2x | 1.2x | 1.2x | 5.3x | 3.6x | 3.0x |
| Rongsheng Petrochemical Co., Ltd. | 002493 CH | China | 10,044 | 27.3x | 12.4x | 9.5x | 21.7x | 7.7x | 5.6x | 1.4x | 0.8x | 0.6x | 3.0x | 2.5x | 2.0x |
| PT. Chandra Asri Petrochemical Tbk | TPIA IJ | Indonesia | 7,217 | 33.4x | 28.9x | 29.5x | 16.2x | 15.6x | 14.6x | 2.8x | 2.9x | 2.7x | 3.9x | 3.5x | 3.2x |
| Saudi Basic Industries Corporation | SABIC AB | KSA | 98,238 | 16.2x | 16.1x | 15.8x | 7.3x | 7.5x | 7.9x | 2.3x | 2.5x | 2.5x | 2.0x | 2.0x | 1.9x |
| Yanbu National Petrochemical Company | YANSAB AB | KSA | 10,065 | 14.9x | 16.4x | 16.2x | 10.5x | 11.1x | 11.4x | 4.8x | 4.9x | 5.1x | 2.1x | 2.2x | 2.1x |
| National Petrochemical Company | PETROCH AB | KSA | 3,430 | 11.6x | 11.4x | 12.0x | 7.2x | 7.2x | 7.4x | 2.4x | 2.4x | 2.6x | 1.5x | 1.4x | 1.5x |
| Advanced Petrochemical Company | APPC AB | KSA | 2,886 | 14.9x | 13.4x | 14.9x | 12.3x | 11.5x | 12.2x | 4.2x | 3.9x | 4.0x | 3.2x | 3.1x | 3.0x |
| National Industrialization Company | NIC AB | KSA | 2,833 | 8.1x | 9.6x | 11.8x | 7.3x | 7.8x | 8.5x | 2.2x | 2.3x | 2.5x | 1.1x | 1.0x | 0.9x |
| Saudi Industrial Investment Group | SIIG AB | KSA | 2,820 | 9.3x | 8.9x | 8.9x | 7.3x | 7.3x | 7.3x | 2.7x | 2.6x | 2.6x | 1.4x | 1.3x | 1.3x |
| Korea Petrochemical Ind. Co., Ltd. | 006650 KS | South Korea | 945 | 4.9x | 4.7x | na | 2.8x | 2.8x | 3.2x | 0.5x | 0.4x | 0.5x | 0.6x | 0.5x | na |
| Westlake Chemical Partners LP | WLKP US | US | 748 | 14.6x | 12.1x | 10.8x | 3.6x | 3.6x | 3.6x | 1.4x | 1.3x | 1.2x | 3.4x | 2.6x | 2.1x |
| Trecora Resources | TREC US | US | 209 | 44.4x | 11.7x | na | 12.4x | 7.3x | na | 1.1x | 1.0x | na | 1.1x | 1.0x | na |
| **Median** | | | | **14.8x** | **12.2x** | **13.3x** | **7.3x** | **7.4x** | **7.4x** | **1.9x** | **2.0x** | **2.5x** | **2.1x** | **2.1x** | **2.0x** |
| **Saudi Kayan** | **KAYAN AB** | **Saudi Arabia** | **5,376** | **11.0x** | **12.3x** | **13.3x** | **8.0x** | **8.6x** | **9.1x** | **3.2x** | **3.4x** | **3.5x** | **1.2x** | **1.1x** | **1.0x** |

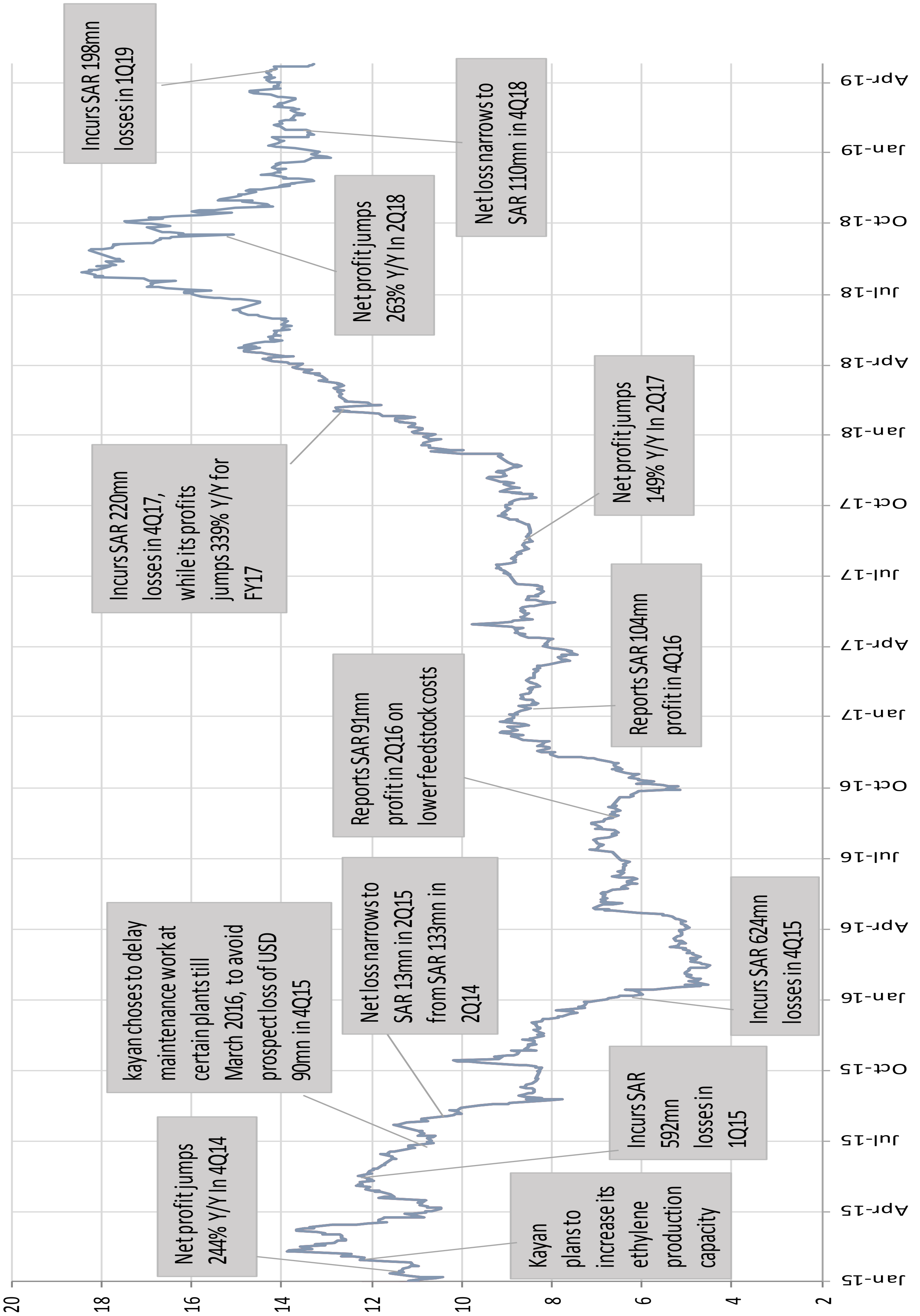
*Source: Bloomberg, SFC*

## Recommendation and Conclusion

We initiate coverage on Saudi Kayan with a Hold recommendation and SAR 14, 12-month target price. On valuation multiples the stock trades 12.3x 2019E P/E versus group median 12.2x, which is a more conservative multiple than SABIC and Yansab.

Key highlights for Kayan include a feedstock mix resulting in more volatile COGS, but room for growth going forward after debottlenecking exercise that resulted in additional capacity and enhanced operational efficiency.

FIG 32: KAYAN'S PRICE PERFORMANCE




*Source: Company Report*

# Summary Financials (Kayan)

| *SAR mln, ending Dec-31st* | | | | | CAGR | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income Statement** | **2018** | **2019E** | **2020E** | **2021E** | **2015-18** | **2018-21E** | **1Q19E** | **1Q18** | ***Y/Y Chg*** | **4Q18** | ***Q/Q Chg*** |
| Sales | 12,263 | 11,400 | 11,257 | 10,850 | *15%* | *(4%)* | 2,509 | 2,727 | *-8.0%* | 2,636 | *-4.8%* |
| Cost of sales | (8,898) | (8,305) | (8,342) | (8,020) | | | (1,832) | (1,866) | | (2,362) | |
| Gross profit | 3,365 | 3,095 | 2,915 | 2,831 | *152%* | *(6%)* | 677 | 862 | *-21.4%* | 274 | *147.7%* |
| G&A | (705) | (655) | (647) | (624) | | | (129) | (141) | | (212) | |
| Operating income | 2,661 | 2,440 | 2,268 | 2,207 | *65%* | *(6%)* | 548 | 721 | *-24.0%* | 62 | *790.9%* |
| Associates & JVs | 48 | 69 | 64 | 63 | | | 8 | 9 | | 11 | |
| Net finance cost | (916) | (843) | (793) | (743) | | | (235) | (212.0) | | (231) | |
| Other income | 88 | 85 | 79 | 77 | | | (17) | (22) | | 100 | |
| Non-controlling interest | | | | | | | | | | | |
| Zakat & income tax | (179) | (220) | (204) | (202) | | | (20) | (33) | | (52) | |
| Net income | 1,702 | 1,531 | 1,415 | 1,402 | - | *(6%)* | 284 | 463 | *-38.7%* | -111 | *-355.9%* |
| Shares outstanding (mln) | 1,500 | 1,500 | 1,500 | 1,500 | | | 1,500 | 1,500 | | 1,500 | |
| **EPS (SAR)** | **1.13** | **1.02** | **0.94** | **0.93** | | | 0.2 | 0.3 | | (0.1) | |
| EBITDA | 4,917 | 4,544 | 4,291 | 4,152 | *38%* | *(5%)* | - | - | | - | |
| DPS (SAR) | 0.00 | 0.00 | 0.00 | 0.00 | | | | | | | |

| | | | | | CAGR | |
|---|---|---|---|---|---|---|
| **Balance Sheet** | **2018** | **2019E** | **2020E** | **2021E** | **2015-18** | **2018-21E** |
| Cash & equivalents | 2,377 | 2,977 | 4,412 | 5,879 | *11%* | *35%* |
| Inventories | 1,659 | 1,707 | 1,714 | 1,648 | | |
| Trade receivables | 2,822 | 3,123 | 3,084 | 2,973 | | |
| Other current items | 2,315 | 2,345 | 2,340 | 2,326 | | |
| Current assets | 9,174 | 10,152 | 11,550 | 12,825 | *15%* | *12%* |
| PP&E | 30,723 | 29,540 | 28,403 | 27,309 | | |
| Investments | 351 | 421 | 485 | 548 | | |
| Other non-assets | 447 | 440 | 433 | 426 | | |
| Total assets | 40,695 | 40,552 | 40,871 | 41,108 | *(1%)* | *0%* |
| Payables | 1,000 | 915 | 915 | 872 | | |
| ST debt | 1,522 | 1,402 | 1,320 | 1,237 | | |
| Other current items | 774 | 758 | 750 | 730 | | |
| Current liabilities | 3,296 | 3,075 | 2,985 | 2,839 | *(8%)* | *(5%)* |
| LT debt | 21,197 | 19,735 | 18,735 | 17,735 | | |
| Other non-current liabilities | 504 | 513 | 507 | 488 | | |
| Total liabilities | 24,996 | 23,323 | 22,227 | 21,062 | *(5%)* | *(6%)* |
| Total equity | 15,699 | 17,229 | 18,644 | 20,046 | *nm* | *8%* |
| Total liabilities & equity | 40,695 | 40,552 | 40,871 | 41,108 | *(1%)* | *0%* |

| **Growth (Y/Y)** | **2018** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|
| Sales | 22.8% | -7.0% | -1.3% | -3.6% |
| EBITDA | 25.2% | -7.6% | -5.6% | -3.2% |
| EBIT | 63.2% | -8.3% | -7.1% | -2.7% |
| Net income | 154.7% | -10.1% | -7.6% | -0.9% |

| **Margins** | **2018** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|
| Gross | 27.4% | 27.1% | 25.9% | 26.1% |
| EBITDA | 40.1% | 39.9% | 38.1% | 38.3% |
| EBIT | 21.7% | 21.4% | 20.1% | 20.3% |
| Net | 13.9% | 13.4% | 12.6% | 12.9% |

| **Ratios** | **2018** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|
| Current | 2.8x | 3.3x | 3.9x | 4.5x |
| ROA | 4.2% | 3.8% | 3.5% | 3.4% |
| ROE | 10.8% | 8.9% | 7.6% | 7.0% |
| Payout | 0.0% | 0.0% | 0.0% | 0.0% |
| CCC | 89 | 127 | 135 | 137 |
| D / E | 1.4x | 1.2x | 1.1x | 0.9x |
| Net debt / EBITDA | 4.1x | 4.0x | 3.6x | 3.2x |

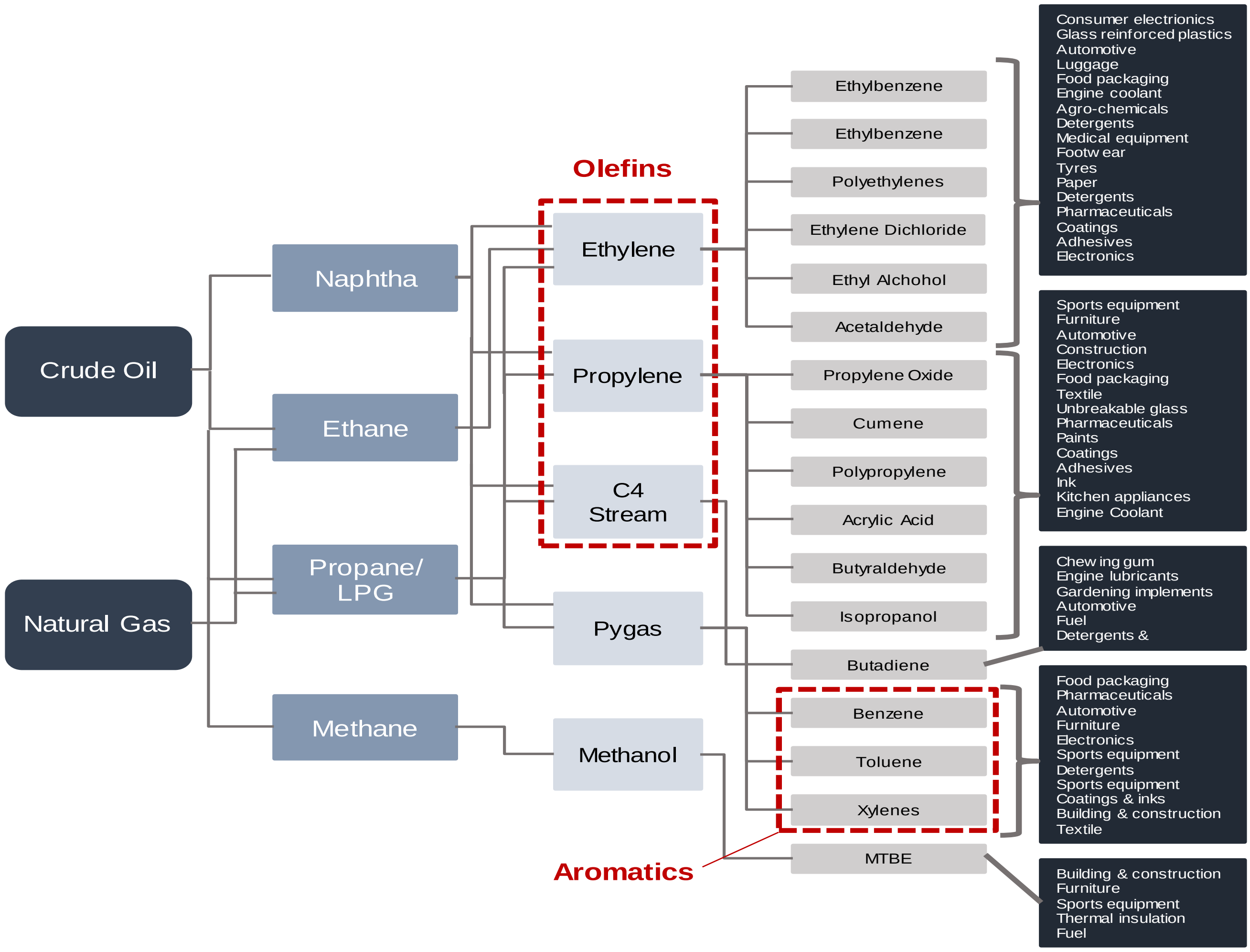
| | | | | | CAGR | |
|---|---|---|---|---|---|---|
| **Statement of Cashflows** | **2018** | **2019E** | **2020E** | **2021E** | **2015-18** | **2018-21E** |
| Income before zakat & tax | 1,881 | 1,751 | 1,618 | 1,604 | | |
| Non-cash items | 3,194 | 3,054 | 2,924 | 2,798 | | |
| Working capital changes | (621) | (478) | 29 | 128 | | |
| Other items | (1,021) | (1,155) | (1,090) | (1,040) | | |
| Cash from operations | 3,433 | 3,172 | 3,482 | 3,490 | *7%* | *1%* |
| Purchase of PP&E | (257) | (922) | (886) | (852) | | |
| Other investing activities | (1,858) | (8) | (8) | (8) | | |
| Cash from investing | (2,116) | (930) | (894) | (860) | *51%* | *(26%)* |
| Net dividends | - | - | - | - | | |
| Debt (payments) / proceeds | (1,455) | (1,582) | (1,082) | (1,082) | | |
| Cash from financing | (1,455) | (1,582) | (1,082) | (1,082) | *(12%)* | *(9%)* |
| Change in cash | (137) | 660 | 1,506 | 1,548 | | |
| Beginning cash | 2,514 | 2,377 | 3,037 | 4,543 | | |
| Ending cash | 2,377 | 3,037 | 4,543 | 6,091 | | |

| **Valuation** | **2018** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|
| P / E | 11.0x | 12.3x | 13.3x | 13.4x |
| EV / EBITDA | 8.0x | 8.6x | 9.1x | 9.4x |
| P / S | 1.5x | 1.6x | 1.7x | 1.7x |
| P / B | 1.2x | 1.1x | 1.0x | 0.9x |

| **DCF Valuation Summary (SAR)** | |
|---|---|
| WACC | 7.2% |
| Enterprise value (SAR mln) | 41,247 |
| Equity value (SAR mln) | 20,904 |
| **Fair value per share** | **14** |

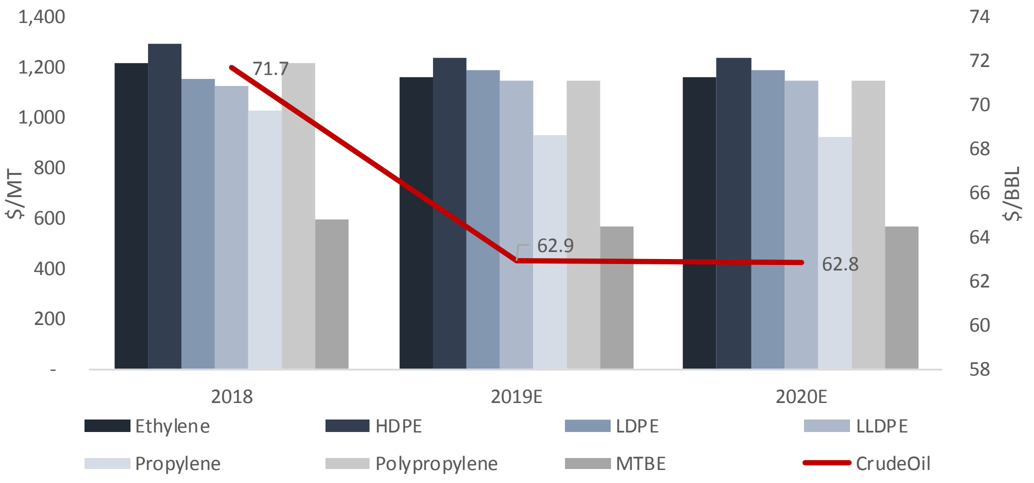
# Appendix

**PETROCHEMICAL PRODUCTS END USES**




*Source: MDPI, Argaam, Petrochemistry*

## PETROCHEMICAL PRICES ($/MT) VS CRUDE OIL ($/BBL)

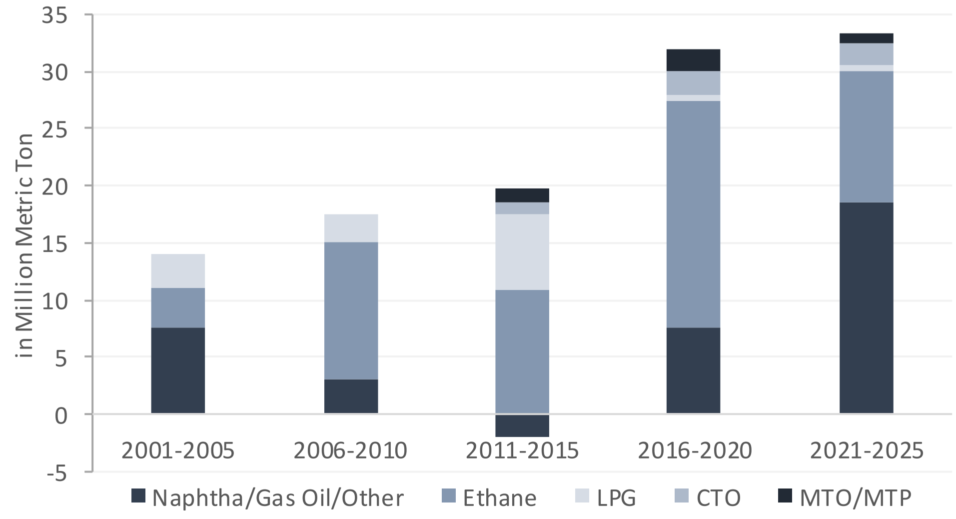



*Source: Bloomberg*

## WORLD ETHYLENE CAPACITY ADDITIONS: 2017-2022 (MILLION METRIC TONS)

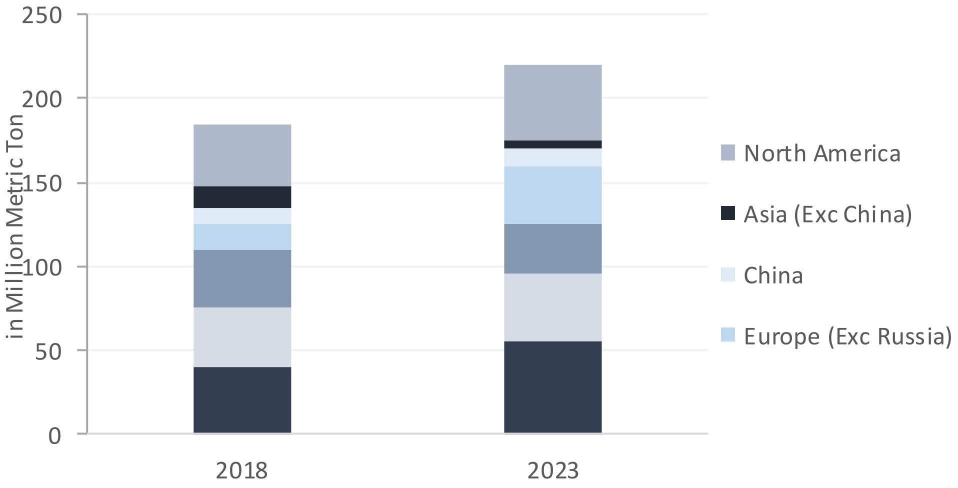

*Source: IHS Markit*

## GLOBAL ETHYLENE GROWTH BY FEEDSTOCK (MILLION METRIC TONS)




*Source: IHS Markit*

## GLOBAL ETHYLENE CAPACITY SET TO HIT 220MN METRIC TONS BY 2023




*Source: EMIS Database - Petrochemical Report by FitchSolutions*

## Research and Advisory Department

### Rating Framework

**BUY**

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

**HOLD**

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market

**SELL**

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.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